The University of Chicago

THE LEGAL BASIS AND PRESENT STATUS OF SHORT-TERM BORROWING FOR SCHOOL PURPOSES

A DISSERTATION SUBMITTED TO THE FACULTY OF THE DIVISION OF THE SOCIAL SCIENCES IN CANDIDACY FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF EDUCATION

1939

By

WALTER A. EGGERT

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CHAPTER I

INTRODUCTION

The Problem

The need for borrowing money is experienced by practically all school districts at either regular or irregular periods in their financial operations. These borrowings are of two distinct types; namely, short-term loans covering a period of a few months and negotiated on the security of current revenues, and those of a longer period extending over a number of years, generally negotiated as long-term bonds on the security of the assessable property of the school district or municipality.

A short-term loan is used as the means of enabling a school district to meet its expenses during the period of the fiscal year before taxes become payable, to cover a deficit created by unforeseen emergencies, or to finance capital enterprises pending an issue of long-term bonds. These short-term loans are usually repaid the same year, or at the latest, in the next year (1) when the taxes against which the loan has been made have been collected; (2) by an appropriation to cover the deficit; or (3) by the issuance of long-term bonds. Long-term loans are negotiated to supply a school district with additional funds over and above its regular revenue, and to enable it to make larger expenditures for buildings and equipment than would otherwise be possible. These loans are then repaid from the revenues of future tax levies imposed for that purpose.

This study is particularly concerned with the statutory

provisions for securing emergency financial assistance through short-term borrowing by the public schools of the United States and the present practices used by school officials in meeting such needs. The chief purpose is to note the legal provisions for short-term borrowing, the extent to which the measure is used by public school systems, the costs involved in its use, and important judicial decisions rendered with respect to the actions of school boards, where such actions have been referred to the courts.

Scope of the Study

The short-term financial operations of the public schools of all forty-eight states are the subject of this study. Data from the statutes have been brought up to date as nearly as possible. Since some of the state legislatures have been in session while the study was in progress, new laws may have been passed since recording the data. Letters to the State Superintendents of Public Instruction, however, have resulted in securing the new legislation passed, some of it in mimeograph form, before it was permanently recorded in the published statutes. The statutory provisions reported can be considered up-to-date to about March 1, 1939.

The study includes a review of the important court decisions pertaining to short-term borrowing for the public schools. Some of these decisions date back as far as 1851 and have served as guiding principles in short-term borrowing by the public schools down through the years. The judicial opinions on controversial questions regarding short-term loans include decisions on the rights and remedies of holders of warrants, the power and authority of school officials in short-term borrowing, the payment of

warrants, orders, and notes, the negotiability and transfer of short-term paper issued by the public schools, and the provisions pertaining to the issuance, requisites, and validity of short-term obligations in general.

The statistical material presented in the study includes data pertaining to the receipts from short-term loans, notes, and warrants, payments of short-term obligations and the amounts outstanding in different fiscal years, as well as the interest cost of short-term borrowing by the several state school systems.

Sources and Treatment of Data

The sources of data were the school codes, revised statutes, session laws, state superintendents' reports, bulletins of state departments of education, court decisions, and letters from state school officials.

School codes and revised statutes.--The revised statutes and school codes usually contain identical provisions concerning short-term financial procedures in the public school systems. Both sources were thoroughly examined so as to assure the accuracy of the data and to secure the most recent regulations available. The material from these sources was briefly interpreted to show the present status of the legislation authorizing school districts to resort to loans when cash is not available. Some of the statutes have been presented in their entirety to show the broad grant of power given school boards in certain states and the specific limited control exercised by others. A tabular summary of the existing statutes relating to short-term borrowing in all the states is presented in Chapter II.

Session laws.--Whenever the existing laws on short-term loans for schools had not yet been permanently bound in the revised statutes or school codes, the accumulated session laws were

examined in order to ascertain the most recent legislation pertaining to the problem.

State Superintendents' Reports.--Data secured from the State Superintendents' Reports pertain to the amount of money received, paid, and outstanding on short-term obligations at specified periods of time. The reports of all the states were examined in detail as far back as they were available. Data on interest costs were also secured from the Reports of the State Superintendents and have been presented in their relationship to the total cost of operating the public schools.

Bulletins of state departments of education.--Some state departments of education have published bulletins or printed leaflets in advance of their annual or biennial reports. Those used in this study contained statistical material on school receipts and expenditures or on new school laws that pertain to short-term borrowing.

Court decisions.--The existing court decisions pertaining to short-term financial procedures have been carefully reviewed. Numerous cases have been referred to again and again in the judicial interpretations and have established some guiding principles in regard to short-term loans for the public schools. The validity of certain statutory provisions has depended entirely upon the interpretation given in the court decisions. Sufficient cases have been reviewed to show that the specific principles concerning the main legal factors in short-term borrowing are interpreted in a consistent manner.

Letters from state school officials.--Whenever data in a State Superintendent's Report needed further clarification, a letter was written to this officer to secure a more specific statement. Data pertaining to short-term loans were brought up to

date to the year 1938 through correspondence whenever it was possible to do so.

Checking and Tabulating Data

The data on the amount of short-term loans used by the schools have been recorded both in actual figures and as a percentage of the total or the current operating expenditures. This procedure seems desirable in order to establish the relationship of short-term borrowing to the total educational program.

A policy consistently followed in tabulating the data was to consolidate the provisions of the statutes, the court decisions, and the data in the Reports of the State Superintendents for a given state. By using this method it was possible to determine the actual conditions under which short-term financing was done. The relationships between the wording of the statutes and the amount of borrowing have been pointed out in numerous ways.

Clarification of Terms

Different terms are used in the statutes for designating different types of short-term borrowing. For the purposes of this study it has not seemed necessary to be particularly concerned over the technical differences between such terms as warrants, notes, tax warrants, orders, tax notes, tax anticipation warrants, tax scrip, and certificates of indebtedness. It has been evident that each serves as a medium for financing school activities when there is no cash on hand. The "specific" names used for short-term loans by the statutes of two states might be entirely different, yet the purposes served and conditions pertinent to their issuance may be identical. A basic principle involved in all types of short-term borrowing is the pledging of the anticipated revenue from taxes or other sources as security. The short-term obligation

is redeemed when the taxes are paid or other revenue pledged as security is received.

In some instances the note or warrant is issued directly to the debtors of the school district, while in others it is sold to financial institutions or private individuals who buy it as an investment. The type of warrant known as "teachers orders" is issued directly to the teachers but it is often sold and resold on the open market. Warrants, tax warrants, tax notes, and scrip may be issued either directly to the individual debtors of the school district or may be sold to investors. Certificates of indebtedness are usually sold to investment firms. When issued directly to the debtors of a school district, warrants are often discounted by the holders in order that they may secure the cash immediately. This is an undesirable practice and may result not only in a loss to the individual but in the impairment of the financial credit of the district as well. It is noted in this study that less short-term borrowing is done in those states which have set up "loan boards" to exercise some regulations over its use.

Historical Review of Borrowing for School Purposes

Tax anticipation notes issued against uncollected taxes represent a form of fiscal procedure that makes cash available for current needs. This pledging of security for the purposes of securing funds has long been used in the United States. Numerous methods have been employed since the seventeenth century when short-term borrowing came into use by the colonists. The State of Massachusetts issued bills of credit in 1690 in order to pay the solders who engaged in the expedition against Port Royal and Quebec in the French War.[1] It was argued that the solders were at the

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[1]Davis Rich Dewey, Financial History of the United States, p. 21. New York: Longmans, Green and Co., 1936.

point of mutiny and should be paid immediately. In a discussion of these bills, Dewey says

> These early emissions being payable in one year were practically due or exchequer bills in anticipation of taxes, and for some years were redeemed, though as promptly replaced by further anticipations. At first they depreciated, but they circulated at par for a time while the issues were limited in quantity and were indirectly declared to be legal tender, by giving them a premium of 5 per cent over silver in the payment of taxes.[1]

Congress itself was not officially authorized to borrow money until October 3, 1776, although it had negotiated a small loan for the purchase of gunpowder in June, 1775.[2] During the progress of the Revolutionary War numerous short-term loans were made and certificates of indebtedness were issued. Financial conditions became so stringent that even the interest on loans could not be paid and it became necessary to issue certificates of interest indebtedness.

The Constitution of the United States which was adopted in 1789 makes provisions for the financial future of the country by the following articles. "The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States."[3] Congress is given power "to borrow money on the credit of the United States."[4]

The Constitution contains what we would now call validating legislation in the section on indebtedness which reads that "all debts contracted and engagements entered into before the adoption

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[1] Ibid., pp. 22-23.

[2] Ibid., p. 56.

[3] U.S. Constitution, Art. I, sec. 8, par. 1.

[4] Ibid., par. 2.

of this Constitution shall be as valid against the United States under this Constitution as under the Confederation."[1]

Restrictions upon the financial operation of the states is evident by the following: "No State shall coin money; emit bills of credit; make anything but gold and silver coin a legal tender in payment of debts."[2]

Thus the government has enjoyed complete freedom in its borrowing power under the Constitution. The provision "to borrow money on the credit of the United States" is very broad and places no restrictions as to time, place, manner, amount, security, payment, or interest on its loans. Under this unlimited borrowing power, the debt of the United States had reached approximately thirty-one billion dollars in 1937.

Short-term borrowing as a device for emergency financing is well illustrated by the fiscal activities of the government during the Civil War. New issues of loans were being made, some were being redeemed, and some were being converted into new forms all at the same time. Samuel P. Chase was Secretary of the Treasury at that time. He resorted to every feasible means in a frantic attempt to finance the war. He found short-term loans maturing in the midst of the struggle and insufficient revenue to meet the current demands for money.

Interest rates were the highest that the government has ever known, reaching 7.3 per cent. A good picture of conditions at the close of the Civil War is shown in the following summary of the outstanding obligations of the government at that time. The tabulation, which is taken from Dewey's Financial History of the United States, includes the long-term obligations as well as the different types of short-term indentures.

---

[1] Ibid., Art. IV, sec. 1. [2] Ibid., Art. I, sec. 10.

OUTSTANDING OBLIGATIONS OF THE FEDERAL GOVERNMENT IN 1865[1]

	Rate of Interest	Length of Loan
A. Long-term bonds:		
1. Loans of July and August, 1861	6%	20 years
2. Five-twenties of 1862. . . .	6	5-20 "
3. Loan of 1863	6	17 "
4. Ten-forties of 1864.	5	10-40 "
5. Five-twenties of June, 1864. .	6	5-20 "
6. Navy pension fund.	3	Indefinite
B. Short-term loans:		
7. Treasury notes of 1861	6	60 days to 2 years
8. Seven-thirties of 1861	7 3/10	3 years
9. One-year notes of 1863	5	1 "
10. Two-year notes of 1863	5	2 "
11. Compound-interest notes. . . .	6 compound	3 "
12. Seven-thirties of 1864 & 1865.	7 3/10	3 "
C. Non-interest notes:		
13. Old demand notes	0	Indefinite
14. Legal-tender notes	0	"
15. Fractional currency.	0	"
D. Temporary indebtedness:		
16. Temporary loans.	4,5, 6	"
17. Certificates of indebtedness .	6	1 year

The theory has often been advanced that those who benefit by a public improvement should share in financing its cost. Thus when bonds are issued to mature twenty-thirty, or more years hence for a new school building, many of the students who attend will have become taxpayers when the loan is being redeemed. At one period during the Civil War when attempts were being made to raise funds, a similar type of reasoning was used when "the country was told that the generation fighting the war should not be called upon to pay for it, but should rely upon borrowing."[2] One of the best uses of short-term borrowing on record is that employed by the federal government during 1927 and 1928 in the redemption of the Second and Third Liberty Loans. Certificates of indebtedness

[1]Dewey, op. cit., p. 306. [2]Dewey, op. cit., p. 311.

running six months, bearing 3 per cent interest, and Treasury notes running for three to five years with interest at 3½ per cent were to redeem the Second Liberty Loan. The Third Liberty Loan was also replaced by short-term Treasury notes bearing 3½ per cent. Since the original issues called for interest rates at 4 per cent and 4½ per cent, substantial reductions were made in interest charges amounting to $75,000,000 annually.

School districts often follow a similar policy, especially in their long-term loans. Bonds are callable for redemption after a certain number of years. When a board of education sees that lower rates of interest may be secured, a new bond issue is offered for sale and the original is redeemed. This procedure effects a substantial saving in interest charges and is generally conceived as being a good business practice. Besides the saving in interest charges, this procedure also gives the board of education an opportunity to re-adjust the maturity of the loan to either a shorter or longer period based upon the current condition of the school finances and the money market in general.

Historically school district borrowing has usually fallen into four general types known as serial bonds, straight long-term bonds, sinking fund long-term bonds, and short-term loans.

By the use of the serial bond a certain amount of the debt is retired each year. This has long been considered one of the most desirable methods of financing public improvements. The interest and principal due for the current year are raised and paid out of the tax levied for that purpose.

In the use of the straight long-term bond only the interest is paid annually and the entire principal is raised by taxation in the year in which it falls due. This type of financing has been very undesirable and its use has been practically abolished.

The sinking fund long-term bond is used in some states. By this method a tax is levied annually which provides for the payment of the interest and a certain percentage of the principal, which is placed in a sinking fund for the repayment of the loan at maturity. Provision is usually made in the statutes for reinvesting the sinking fund so that interest is received rather than letting the funds lie idle. There is an apparent danger in bad investments or misuse of the sinking fund so that this type of bond is being questioned as a safe investment.

There has been no apparent agreement on the duration of a short-term loan. School financing for short-term periods has taken on varied aspects and is secured through many devices. It is evident that tax anticipation warrants, short-term notes, scrip, tax-revenue notes, delinquent tax warrants, warrants, and revenue scrip are all terms used synonymously to represent instruments for carrying on the fiscal affairs of school districts for a short period of time. They are issued against the credit of the district, which credit usually consists of anticipated or delinquent taxes or other funds expected to be received from state aid, tuition, or fees that are applicable to the current year.

The necessity for each fiscal year to stand on its own resources for meeting the current expenses has now become definitely established. It will be observed from the statutes and court decisions referred to in this study that borrowing to meet the current operating costs of the public schools must be restricted to the tax levy and other anticipated funds applicable to the current fiscal year. Likewise such borrowing should be on a short-term basis so that the loans can be repaid at least by the end of the fiscal year. The following comment is made by Shultz.

> A warrant is a departmental order to a governmental disbursing officer to pay the holder in accordance with

> the terms of the warrant. It is an established part of the machinery of governmental administration, and if properly used is not subject to criticism. Many local governments, however, when they find themselves pressed for cash, make their warrants payable in three months or six months instead of on demand. In some cases the warrants are made payable out of some subsequent tax receipt. The holders of such warrants are in effect compelled to extend credit to the government for the term of the warrant. The holder of such a warrant may discount it at local banks, but not for its face value. All parties having business dealings with such governments, except their salaried employees, take this circumstance into account, and make a corresponding addition to their charges. The practice of allowing bills to go long unpaid leads to similar excess charges. To finance a government by means of warrants payable in the future or by unpaid bills is unprincipled and costly.[1]

The process of continually operating the schools on borrowed money can lead to numerous financial difficulties. The seriousness of such short-term borrowing to pay the current expenses of maintaining the public schools has been concisely explained by Morrison.

> One of the commonest causes of quasi-bankruptcy in school districts is operating debt. The process of borrowing on the year's operating account, once entered upon, goes to such lengths that presently the full year's revenue is pledged to pay for the borrowings and interest charges of the previous year. In that case the schools of course go on, but the district is one full year behind. Conceivably, one might thus keep on indefinitely, always one year behind, but always paying in interest what ought to be devoted to productive personal services and to the purchase of needed commodities. We cannot, however, keep on that way so long as the inducements which originally led us to borrow on operating account keep alive. Presently we are two years behind and interest charges which at first amounted to perhaps 5 per cent of the full operating budget now amount to 10 per cent, etc. Ordinarily, at first one thing and then another happens.
>
> First, the banks refuse to take any more district notes or to discount any more of the warrants of the board of education. Since there is no revenue in hand, the teachers and other creditors have to do without their pay, and this not only works a grave injustice but it seriously interferes with trade and the functioning of the economic organism of the community in general. The end of that particular road is the sale of funding bonds. In other words, the operating debt is converted into a bonded debt

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[1]William J. Shultz, American Public Finance and Taxation, p. 146. New York: Prentice-Hall, Inc., 1934.

> and, apart from drastic reforms, the process starts all over again, in preparation for a later episode in funding.
>
> Second, funding cannot be carried very far, especially if the district is already carrying a heavy capital debt. The law probably limits the amount of legal indebtedness, and, even though the law be changed, the amount of city- and school-district indebtedness which the market will absorb is strictly a matter of confidence in not only municipal ability to pay but municipal willingness to pay. The end of the road must be drastic cuts in the school expenditures, carrying them far below the level required by effective service.[1]

It is apparent that short-term borrowing is a common practice by the federal government and the various subdivisions thereof. The data in this study will be concerned only with its use in the public schools of the United States. The fact that all but four of the states have statutory provisions to regulate its use by school officials merely emphasizes the importance with which it has become established as a financial procedure in the operation of local school systems. Our first consideration, therefore, will be that of the authority granted to school districts by the state legislatures to conduct school business when cash funds are not on hand.

---

[1]Henry C. Morrison, The Management of the School Money, pp. 190-191. Chicago: The University of Chicago Press, 1932.

CHAPTER II

STATUTORY PROVISIONS FOR SHORT-TERM BORROWING FOR SCHOOLS OF THE UNITED STATES

Digest of Statutory Provisions

Forty-four of the forty-eight states have set up regulations governing short-term borrowing by school districts. The statutes generally specify (1) the amount of borrowing that may be done, (2) the funds against which borrowing may be made, (3) the maximum interest rate that may be paid, (4) the purpose for which the borrowed funds may be used, and (5) the group or individual authorized to negotiate the transaction.

The amount of money that may be borrowed on a short-term basis shows great variation among the states. In some states it is definitely prohibited, while in others, school districts may borrow 100 per cent of the current revenue. The statutes are fairly uniform in limiting the borrowing to taxes already levied for the current or prior years and to funds anticipated to be received from state aid for the current year. It is evident that the statutes intend that school boards should confine their borrowing to funds that apply to the current year in order not to jeopardize the educational program of future years. The maximum interest rates allowed on short-term borrowing vary from 4 per cent to 8 per cent, but the rates actually paid fluctuate with the economic conditions and are often considerably less than the maximum. The purpose for which short-term borrowing is usually done is to secure money to meet the current financial needs of instruction, maintenance, and supplies. The group authorized to negotiate

the loan in practically all states is the school board, although some states place the authority in the county court, the county commissioners, school trustees, or some other governmental body. Great variation is evident in the freedom given to the school boards in negotiating loans. The provisions of the statutes of some states are given in great detail while others briefly authorize the boards to borrow money without any restrictions on the manner of sale, bidding, advertising, and other contingent factors. It is evident from the statutes that the school boards generally have the power to negotiate short-term loans without securing any additional consent from the people as is usually necessary when issuing long-term bonds. The lack of uniformity in the laws of the different states is to be expected since each state legislature is free to set up whatever plan of financing its schools that it deems necessary and desirable.

The controls established by the legislatures might represent to some extent the confidence ordinarily placed in school boards with respect to the management of the school money. The law of New Hampshire, for example, in a few words gives school boards the authority to provide for short-term loans by indicating under the general powers and duties of school boards the authority "to hire money"[1] for any necessary purposes. It is obvious that this provision gives a great measure of freedom to the officers of the school district in setting up their financial program, whether it require short or long-term borrowing. It is interesting to note that over a period of seventeen years dating from 1920 to 1936 inclusive, an average of only five-tenths of one per cent of the total cost of financing the schools of New Hampshire has

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[1] Laws of New Hampshire, 1935, chap. 119, sec. 3.

involved the use of short-term loans. Apparently there has been no abuse of the privilege extended to the school districts of this state by the broad provisions of the statutes.

In direct contrast to the New Hampshire statute, the regulations governing short-term borrowing in Indiana are explicit and detailed.[1] Practically nothing is left to the discretion of the school authorities. The statutes regulate the amount of tax warrants to be sold, time of sale, interest rate, duration of the warrants, payment of interest, payment of principal sum, form of the warrants, taxes against which they may be issued, the use of the proceeds; they require that the warrants be serially numbered and sold at par, that names and addresses of purchasers be recorded and prescribe the method of notification for payment. Approximately 3 per cent of the total cost of the schools of Indiana is annually provided by short-term loans. There is, however, no apparent relation between the general form of the statute and the usage made of the short-term borrowing provisions. The statutes of Louisiana[2] are set up in somewhat the same detail as those of Indiana, but here we find that an annual average of approximately 27 per cent of the total expenditures and 53 per cent of the current expenses during a period of eighteen years (1919 to 1937) was provided by means of short-term loans.

The more important features of the statutes governing short-term borrowing for school purposes are summarized in Table 1.

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[1] School Laws of the State of Indiana, 1935, chap. 23, sec. 1032-1041.

[2] Fourteenth Compilation of School Laws, Louisiana, 1932, Act. No. 178 of 1932.

TABLE 1

SUMMARY OF STATUTORY PROVISIONS FOR SHORT-TERM BORROWING FOR PUBLIC SCHOOLS

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Alabama	33 1/3% of the sum paid for all current expenses during preceding year.	6%	County or City Board of Education	Teachers' salaries and other current expense	
Arizona		6	School Board		Regular school warrants endorsed "not paid for want of funds."
Arkansas	Not more than non-bonded debt at same time of preceding fiscal year.		School Board		Use warrants "not paid for lack of funds." Also may borrow from banks, individuals, or next year's revenue. Authority comes under powers and duties of school boards.
California	May temporarily transfer 85% of funds that will accrue from any funds to district during the year.	6	Board of Supervisors, Auditor, and Treasurer	Current expenses of maintenance.	Also use orders endorsed "not approved for want of funds."
Colorado		6	School Board		Use orders and warrants "not paid for want of funds."
Connecticut			Town Board for School District		Short-term borrowing done under provision "to lay taxes and borrow money."

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Delaware	No provisions				
Florida	80% of revenue reasonably expected to be received	8%	County Board of Public Instruction	Any and all legitimate expenses and school warrants	Previous money borrowed must be repaid in full before new loan is made.
Georgia	Amount equal to state appropriation and taxes levied for current year--thus equal to 100% of all estimated receipts	"as low a rate as possible"	County Boards of Education	Operation of public schools	Must report amount borrowed to grand jury. Resolution of Board must state interest rate, length of time, and from whom borrowed.
Idaho		6%	School Board		Regular school warrants endorsed "not paid for want of funds."
Illinois	75% of tax levied for specific purpose--90% of same if working cash fund is set up	6	Directors, Board of Education or Board of School Inspectors	Necessary expenses	Also use orders endorsed "not paid for want of funds."
Indiana	33 1/3% of current tax levy--75% of delinquent tax levies. In cases of emergency borrowing may be made from school funds within district without interest	6 4	Board of School Trustees or other proper	Current expenses	Resolution necessary. Must be sold at par.

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Iowa	$3,500,000	5%	Treasurer of state with approval of executive council. School Board for regular warrants	Claims on the state sinking fund and for refunding anticipatory warrants	Also use interest bearing warrants "not paid for want of funds."
Kansas	25% of levy for current tax year		Any board or individual authorized to levy taxes after getting authority from state tax commission	General maintenance	Must show that there is an emergency. These are called emergency warrants; a special tax is levied to pay them.
Kentucky	75% of anticipated revenue from school taxes for the fiscal year	6	Board of Education		Must be repaid in fiscal year in which borrowed
Louisiana	Two mills of the taxes authorized for school purposes	7	School Boards and municipal corporations	Payment of any indebtedness matured or unmatured exclusive of bonded indebtedness	Sold at not less than 95¢ on the dollar plus accrued interest.
Maine	No provisions				

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Maryland	No provisions				
Massachusetts	1/12 of estimated cost of expenditures for each month of the year		Officers authorized to make expenditures	Liabilities of the departments	Extreme emergency must exist. 2/3 vote of selectmen or city council.
Michigan	10% of next year's tax levy; 80% of current year's levy; 80% of special assessments levy	7%	School district by resolution of its governing body	Debts and necessary maintenance expense	Notes payable to bearer. Receivable in payment of general taxes. Permission to issue must be secured from state "Loan Board."
Minnesota	65% of the current tax levy	6	By resolution of School Board	Meeting obligations of the ensuing year	Must be sold at par and accrued interest, numbered consecutively, in denominations of $25 or multiples thereof. Also use orders endorsed "not paid for want of funds."
Mississippi	Not to exceed 1% of taxable property; 50% of anticipated revenue for year; 25% of anticipated amount from U. S. government	6	Board of Supervisors, Mayor plus Board of Aldermen, Mayor plus Commissioners	Paying expenses authorized by law	
Missouri	No provisions				

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Montana	90% of taxes for current year plus all other revenues anticipated from fees, state and federal aid, tuition, etc.		Board of Trustees	Current expenses	
Nebraska	70% of unexpended balance of current tax levy	6%	Board of Education in districts 40,000--100,000 population		Called promisary notes; to mature in one year. Paid in order of registration by Treasurer. Also endorse regular warrants "registered for payment" when no funds are on hand.
Nevada	Sufficient to meet temporary emergency	8	School Board	For meeting emergency	Loan must be repaid in 2½ years. District must levy an emergency tax.
New Hampshire			Majority vote of the legal voters present and voting at annual or special school meeting	Hire money for any school purpose	Authority under general powers and duties of School Board.
New Jersey	50% of current tax levy; 80% of current railroad tax levy; 80% of tuition due the district	6	Board of Education	Past due services, wages, salaries, and other obligations	Notes and scrip may be accepted in payment of taxes. May be sold in such manner and from time to time as provided by resolution.

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
New Mexico	Not in excess of budget allowance for 90 days	8%	County and Municipal Boards of Education with consent of Ed. Budget Auditor	School maintenance	Certificates of indebtedness issued on the faith and credit of the district.
New York	May borrow in anticipation of revenues from the state and uncollected taxes for current fiscal year. Special borrowing privilege if a bank closes and ties up school funds	6	Board of Education	Current expenses of the district	Certificates of indebtedness payable within nine months. Emergency tax may be levied for funds lost in banks.
North Carolina	Sufficient to run school for six months		County Commissioner	Needs and equipment	Levy a tax next ensuing year to repay the money.
North Dakota	All delinquent taxes of current and four preceding years	7	School Board after receiving a certificate of delinquent taxes from county auditor		Called certificates of indebtedness. Also may issue "warrants" for current expenses in excess of cash on hand.
Ohio	50% of current year tax levy plus an amount equal to all money due from state school fund		Taxing authority of any subdivision of the state	Must be used for purpose for which tax is levied	Notes run for six months.

TABLE 1-Continued

State	Legal Amount That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Oklahoma	Not in excess of estimate for current year	Legal rate	Board of Education		Register warrants and certificates of indebtedness until funds are on hand to pay same.
Oregon	$5000 which shall not with other debts exceed 5% limitation	Legal rate	School Board when authorized by a majority vote of legal voters present and voting at any legal school meeting	Building, repairing, and furnishing school	Negotiable interest bearing warrants. May use school warrants and endorse "not paid for want of funds."
Pennsylvania	4/10 of 1 per cent in districts of 1st and 2nd class, 1% in districts of 3rd and 4th class, of all taxable property in the district	Legal rate	Affirmative vote of 2/3 of Board of School Directors		Not exceed 2% of total assessed valuation. Must be repaid from current revenue within 2 years. Called certificates of indebtedness.
Rhode Island	1/12 of the amount appropriated in the preceding year		School Committee	Public school purposes	May use any money in the town treasury not otherwise appropriated.
South Carolina	50% of estimated state receipts; 75% of amount reported by County Auditors for fiscal year	7% 8% in Dorchester County	County Treasurer and County Supervisors upon application of County Board of Education	To pay school claims	Pledge taxes for the payment of money so borrowed.

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
South Dakota		6%			Regular school warrants endorsed "not paid for want of funds."
Tennessee	Not in excess of balance due from school budget approved by Quarterly County Court	6	Quarterly Court	Payment of teachers' salaries and necessary operating expenses	Short-term notes
Texas	80% of local tax. 60% of state apportionment. (Expired August 31, 1935)	4	Trustees	Salaries	No warrants sold at a discount. Shall bear interest paid numerically.
Utah	Not in excess of taxes for current school year (100% of current levy)		Board of Education	Maintenance of schools	May borrow money and issue negotiable notes.
Vermont	Such amount as the necessities of the town district require		Board of School Directors	Claims against district	Attorney General rules this power under general duties of the school directors "to receive and use money."
Virginia	50% of levy for current year; 50% of cash appropriation for preceding year	6	School Board		No additional loans made until all prior loans are paid. Anyone violating this statute is guilty of malfeasance in office.

TABLE 1-Continued

State	Legal Amounts That May Be Borrowed	Maximum Rate of Interest	Individual or Group Authorized to Borrow	Purpose For Which Borrowed	Miscellaneous Regulations
Washington		8%	Unanamous vote of Board when there is an emergency		Warrants "endorsed" and bear interest until called for payment. May also issue emergency warrants and levy tax to pay the same.
West Virginia		Legal rate	County School Board		Sheriff endorses on warrants "presented for payment." Sheriff receives, collects, and disburses levy on order of the Board.
Wisconsin	50% of all estimated receipts		School Board	Immediate expenses of maintaining schools	May borrow money on their own motion.
Wyoming		6%	School Board		Regular school warrant endorsed "not paid for want of funds."

Funds Against Which Borrowing Is Done

The statutory provisions regulating short-term borrowing permit the pledging of numerous sources of school income as security for such loans. The school district "tax" is the most common source of revenue against which borrowing is done, although the statutes of some states permit borrowing against state aid, federal aid, tuition, fees, and all other current receipts. The data in Table 1 indicate the amounts that may be borrowed and the funds that may be pledged for such loans in the different states.

It is evident that a school district in which the statutes permit borrowing to the extent of 50 per cent of "all" the revenue to be received during the current year from taxes, state aid, tuition, etc. would have a much greater borrowing capacity than a district in which the authority to borrow 50 per cent is limited to local school taxes only. The stability of the funds as sources of income might also have considerable bearing upon the amount of short-term borrowing authorized. Several states have indicated this in their statutes. For example, in New Jersey, school districts may borrow 50 per cent of the current tax levy, 80 per cent of the current railroad tax levy, and 80 per cent of the tuition due the district. Likewise in Ohio the school districts may borrow only 50 per cent of the current year's taxes, but they may also borrow an amount equal to "all" money due from the state school fund. The statutes of Indiana limit school borrowing against the current tax levy to 33 1/3 per cent but permit borrowing against delinquent taxes to the extent of 75 per cent. The data in Table 1 reveal no established unity in the percentage of borrowing that may be done against anticipated revenue.

Centralization of Authority in Short-Term Borrowing

The authority to borrow money on short-term loans is

usually fixed in the school board. The statutes generally extend this short-term borrowing power without the necessity of securing the further approval of the residents of the school district as is necessary when long-term bonds are issued. From Table 1 it can be observed, however, that some states have set up certain "checks" upon the school boards in negotiating short-term loans. In Kansas, for example, authority must be secured from the State Tax Commission before money may be borrowed and then the amount is limited to 25 per cent of the levy for the current tax year. Consent of the Educational Budget Auditor is required in New Mexico and the limitation is such that the amount borrowed may not be in excess of the budget allowance for ninety days. In North Carolina the County Commissioners are authorized to do the borrowing and in South Carolina the power rests with the County Treasurer and the County Supervisors upon application of the County Board of Education. Tennessee places the short-term borrowing power in the Quarterly Court while in Oregon and New Hampshire the school board negotiates the short-term loan after being authorized by a majority vote of the legal voters present and voting at any legal school meeting. In Connecticut the town board secures the loan for the school district. The remaining statutes indicated in Table 1 place the short-term borrowing power directly in the hands of the school officials.

Warrants Used in Payment of Obligations

School warrants are sometimes sold to financial investors as a short-term investment. The persons who buy them make cash available to pay the creditors of the school district.

School districts in many states, however, follow the practice of issuing warrants directly to their creditors. When funds are not immediately available for the payment of the warrants, the

authorized school official endorses thereon, "not paid for want of funds" and keeps a record thereof. In either case the warrants are called for payment (usually in numerical order) when the funds against which they were issued are collected. Table 1 indicates that warrants may be issued in excess of the cash on hand and endorsed "not paid for want of funds" by school districts in the States of Arizona, Arkansas, California, Colorado, Idaho, Illinois, Iowa, Minnesota, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Washington, West Virginia, and Wyoming. The statutory provisions pertinent to their issuance will be discussed individually for each state in the succeeding pages of this chapter.

It must be remembered that even though the statutes may call their short-term financing devices by different names, the general principle involved is the same, namely: to provide a means of supplying funds for a short period of time, until certain anticipated revenues are available.

Interest Rates

One of the important stipulations in the provisions for short-term loans for school purposes in the several states is the rate of interest on such loans allowed by the statutes. The limitation of the law in such cases is expressed in the form of a maximum rate of interest. The amount of the interest cost is obviously determined in part by the length of the loan period, but the time factor is not so rigidly defined as the maximum rate of interest. The maximum rates designated by statute in twenty-seven states are shown in Table 2.

Texas has the lowest maximum rate (4 per cent) while the highest (8 per cent) is found in Washington, Nevada, New Mexico, South Carolina, and Florida. The average maximum rate for the twenty-seven states reporting is 6.4 per cent and the most common rate allowed is 6 per cent.

TABLE 2

MAXIMUM INTEREST RATES ALLOWED BY THE STATUTES ON SHORT-TERM LOANS IN TWENTY-SEVEN STATES

State	Maximum Per Cent Interest	State	Maximum Per Cent Interest
Alabama	6	Nebraska	6
Arizona	6	Nevada	8
California	6	New Jersey	6
Colorado	6	New Mexico	8
Florida	8	New York	6
Idaho	6	North Dakota	7
Illinois	6	South Carolina	8
Indiana	6	South Dakota	6
Iowa	5	Tennessee	6
Kentucky	6	Texas	4
Louisiana	7	Virginia	6
Michigan	7	Washington	8
Minnesota	6	Wyoming	6
Mississippi	6		

Mean	6.4
Range	4 to 8
Mode	6

In actual practice, however, the interest rates paid are frequently less than the maximum allowed by the statutes. This results from a variety of factors. The most significant of these factors are:

1. The general financial condition of the school district.
2. Economic conditions in general.
3. Stability of the money market.
4. Duration of the tax warrants or short-term loans.
5. The integrity and financial prestige of the school officials making the loan.

The Board of Education of the City of Chicago has long used tax-anticipation warrants as a means of financing the operation of the schools. The rate of interest paid on such warrants has ranged from 6 per cent[1] for a number of years prior to 1932

[1] Proceedings of Board of Education, City of Chicago, July 8, 1931 to July 12, 1932, p. 619.

to 2 3/8 per cent in 1938.[1] An interest rate of 2 3/8 per cent on the indentures of municipalities is a very low rate in relation to the prevailing practice of earlier years. During the depression years of the early 1930's school districts in Illinois in most instances paid the maximum (6 per cent) rate of interest. Consequently it may be seen that the "rate" undergoes fluctuation in the same manner that other prices fluctuate, being determined in part by the adjustment of the supply of loanable capital to the demand for its use. Since interest rates commonly vary with respect to the character and reliability of the borrower, it appears that all the factors mentioned enter into the final determination of the "rate" charged at any given time.

Varying Provisions of the Statutes for Short-Term Borrowing in the Different States

It has been observed from Table 1 that forty-four states have given their school officials authority to meet emergencies in school finance by setting up regulations for short-term borrowing. Since these provisions vary widely from state to state, a brief digest of them is presented herewith. While there may be little consistency in the statutes on short-term borrowing, there is one general principle which seems to be recognizable in most of them, that is, a provision of authority to finance the schools on a basis of short-term borrowing by pledging the current revenue. Just how conservative or liberal a state may be in granting this authority to its school officials can only be ascertained by an examination of the statutes of each state.

Alabama.--Alabama may be classified as a rather conservative state in the authority which it grants to the school boards

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[1] Ibid., July 14, 1937, to July 6, 1938, p. 1185.

to borrow money for short periods of time. The total amount that may be borrowed in any one year cannot exceed one-third of the amount spent for all current expenses during the preceding year. These loans must be repaid before the end of the fiscal year in which they were issued. Only current revenues may be pledged for their payment and the rate of interest cannot exceed 6 per cent. The proceeds of such a short-term loan may be used to pay teachers' salaries and other current expenses.

Considerable freedom is given to the school boards of Alabama as to the manner of handling the details of their short-term borrowing. However, there seems to be no apparent risk involved to individuals or corporations who make the loans, since a school district should always be able to collect at least one-third of its anticipated revenue for the fiscal year. With the short-term borrowing power limited to one-third of the sum paid for current expenses during the preceding year, the financial paper of the schools should be in demand by the banking institutions of the state. Strict adherence to the statutes would make the investment a very safe one. From these three provisions it appears that sufficient opportunity is given the school boards to borrow money or issue warrants to meet financial emergencies that might arise in the schools. Temporary current indebtedness may also be incurred beyond the provisions of the budget if permission is secured from the State Board of Education. Such broad provisions, therefore, confer considerable authority upon school officials for the exercise of their judgment in their short-term financing dealings.

The statutory provision for short-term loans for school purposes in Alabama is as follows:

> Funds May Be Borrowed Against Revenues of Current Year.--Any county board of education or any city board of education shall have authority upon the recommendation of the county superintendent of education or city

> superintendent of education, as the case may be, to borrow money on the credit of the school fund of that county or city to meet the salaries of teachers and other current expenses when the current funds on hand are not sufficient to meet the same, and as security therefor, to pledge the current revenues of the current fiscal year. It shall be the duty of the county board of education and the county superintendent of education or city board of education and city superintendent of education to secure such a loan if practicable, when the current funds on hand are not sufficient promptly to pay teachers' salaries and other current expenses. All such current loans shall be due and payable not later than the end of that fiscal year. Provided however, that the county board of education or the city board of education may issue certificates of indebtedness for payment of current expenses which are due when funds on hand are not sufficient to pay such obligations and when an adequate loan cannot be secured. Such certificates of indebtedness shall become due and payable not later than the close of the fiscal year in which they are issued and shall pledge the current revenues of that fiscal year. At no time shall loans be secured or certificates of indebtedness be issued for current expenses during any year which shall pledge school revenues of any other fiscal year. The amount which is borrowed, either by loan or certificate of indebtedness, shall at no time exceed one-third of the sum paid for all current expenses, including teachers' salaries during the preceding school year. Boards of education shall have authority to pay interest at the rate of not exceeding six per cent (6%) per annum on such loans or such certificates of indebtedness as may be issued.[1]

Arizona.--Arizona is one of several states in which school districts issue their warrants directly to their debtors. Whenever there is no money on hand to pay them, the warrants are registered by the treasurer, endorsed "not paid for want of funds," and bear interest at the rate of 6 per cent until paid. This appears to be a very simple method of financing the schools for short periods when funds are not at hand for current expenses. As long as the warrants issued are within the anticipated revenue for the year, there should be no loss to the holders. Likewise, the financial credit of the district should not be impaired. However, there is always the possibility that the original holder will pass the

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[1] Alabama School Code, Supplement No. 2, 1936, Act No. 300, sec. 9.

warrant on to a third party at a "discount" because cash is needed. All discounts are, of course, a loss to the original holder. It would also be undesirable for a school district to have its commercial paper circulate under par.

The success of such a plan depends to some extent upon the integrity of the school officials. It would seem that as long as warrants were not issued by them in excess of the anticipated income, there should be no complications in the procedure. The following regulation governs the issuance of such warrants in Arizona:

> When a warrant of the board of supervisors or of the county superintendent of schools is presented for payment, the treasurer shall pay the same, and write or stamp on the face thereof "paid," the date of payment, and sign his name thereto; if he cannot pay the same for want of funds, he shall indorse theron, "not paid for want of funds," and the date of presentation, and sign his name thereto; and from that time until paid the warrant shall bear six per cent per annum interest. He must keep a register of warrants presented for payment.[1]

In a legal interpretation of the above statute in the case of Coggins v. Ely the court said:

> This section does not confer authority upon a county treasurer to fix the rate of interest of any warrant indorsed by him. Where the rate of interest on school warrants issued to pay salary claims is not determined by the school trustees, such warrants bear interest at the rate of six per cent per annum.[2]

In the case of the National Surety Co. v. County of Pinal the court said that "moneys received upon warrants accepted as cash and not marked 'not paid for want of funds,' upon disposal to third persons for each, are public moneys within the meaning of the depository bond of a bank."[3]

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[1] Revised Code Supplement Arizona, 1936, chap. 19, sec. 867.

[2] Coggins v. Ely, 23 Ariz. 155, 202 Pac. 391.

[3] National Surety Co. v. County of Pinal, 30 Ariz. 383, 247 Pac. 135.

Arkansas.--In the State of Arkansas ample provision is made for short-term financing of the schools through three distinct provisions of the statutes. The first of these provides "that in cases of an emergency the State Board of Education may grant special permission to a district to create temporary current indebtedness."[1] School boards may also borrow "from banks, individuals or from next year's revenue in order to provide funds in such amount that the maximum non-bonded indebtedness of the school district so incurred shall not be greater than the maximum non-bonded indebtedness of such districts was at any time during the preceding fiscal year."[2] The third provision is for the use of regular school warrants to be endorsed "not paid for lack of funds" when there is not sufficient money on hand to pay them.

> If there are no funds with which to pay a school warrant, the treasurer shall endorse it, "Not paid for lack of funds," giving the date and number of registration and signing his name officially. He shall record the registration date and number of each warrant, keeping a separate record for each school district and shall pay said warrants in the order of their registration; provided, if any registered warrant is not presented to county treasurer for payment within twelve months from date on which money was reserved for payment of said warrant, it loses its priority over warrants registered at a date later than it was registered; provided further, that a warrant which has lost its priority shall be re-registered by the county treasurer as a new warrant when presented to him for payment. A school warrant which has lost its priority is void unless presented to the county treasurer for re-registration within two years from date on which money was reserved for payment of said warrant.[3]

California.--Two definite methods for financing schools on a short-term basis are found in the statutes of the State of California. The first of these provides for the transfer of county funds and the other for the use of warrants endorsed "not

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[1] Digest of the Statutes of Arkansas, 1937, chap. 147, sec. 11535.

[2] Ibid.

[3] Ibid., chap. 148, sec. 11648.

paid for want of funds." Some financial authorities look upon the transferring of funds as a dangerous practice. It is certain that conditions should be such that the funds will be available to be returned to their original source when needed. Advocates of this plan argue that it saves the interest, or at least keeps it within the school district or the county in which the district is located if the district operates as an agency of the county.

Whenever there are insufficient funds to meet current expenses in a school district of California, a transfer may be made from any funds of the county not immediately needed to pay claims. The amount transferred cannot exceed 85 per cent of the amount of money which will accrue to such school district during the fiscal year and must be repaid from the first money becoming available. The brief statutory provision governing this procedure is as follows:

> Whenever prior to the receipt by any school district of its state, county, or city and county, or district funds, any school district of a county, or city and county, shall not have sufficient money to its credit to meet current expenses of maintenance, it shall be the duty of the board of supervisors of said county, or city and county, to order, and of the auditor and treasurer of said county, or city and county, to make a temporary transfer from any funds of said county, or city and county, not immediately needed to pay claims against them, to the school fund of such district, such amount as may be needed, not to exceed eighty-five per cent of the amount of moneys which will accrue to such school district during such fiscal year, and upon the making of such transfer the auditor shall immediately notify the superintendent of schools of the county, or city and county, of the amount so transferred. Each transfer of funds requested under the provisions of this section shall be granted in order of receipt by the board of supervisors, regardless of whether sufficient county funds are available for transfer to meet pending or anticipated requests of school districts.
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> The funds so transferred under the provisions of this section, to the credit of a school district, shall be retransferred by the auditor and treasurer to the fund from which they were taken from the first moneys accruing to such school district and before any other obligation of such school district is paid from such moneys so accruing.[1]

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[1]Codes of California, 1937, sec. 4.290.

The other method used by the schools of California for their short-term financing is the regular school warrant or order. As in the States of Arizona and Arkansas, these warrants are endorsed "not approved for want of funds" when there is no money on hand to pay them. The statutes tend to give the holders thereof ample protection by providing for registration of warrants, payment in the numerical order in which issued, and the setting aside of funds to pay them. Interest at 6 per cent accrues from the date of presentation for payment until the publication of a notice that funds are on hand to pay them. Definite provision is also made that warrants cannot be issued in excess of the revenue and income expected for the year. The county superintendent of schools instead of the treasurer is made the key school officer in the transactions and the holder of the warrant looks to him for his payment. As pointed out earlier in this discussion, this centralization of control in the office of the superintendent of schools is deemed a desirable practice for the sound financial administration of the schools. The statutes of California regulating the issuance of warrants are as follows:

> When any claim or demand against any school district shall be presented to the superintendent of schools of any county, or city and county, no requisition upon the county auditor shall be drawn thereon unless there is sufficient money in the fund against which such order or demand is drawn to pay the same in full.
>
> When any such order or demand is presented to the superintendent of schools of any county, or city and county for approval and is not approved for want of funds and the amount of said order or demand does not exceed the income and revenue provided for the year in which the indebtedness was incurred, for which said order or demand was drawn, the superintendent of schools must indorse thereon the words "Not approved for want of funds" with the date of presentation and shall, in attestation thereof, affix his signature thereto.
>
> The superintendent of schools shall number such indorsement and shall register said order or demand in the records of his office and shall thereupon deliver said order or demand to the claimant or his order. From that time, such order or demand shall bear interest at the

rate of six per cent per annum as hereinafter provided.

When the superintendent of schools shall ascertain from the treasurer that there are sufficient public school moneys in the treasury of the county, or city and county, which can be applied to the payment of the aforesaid indorsed orders or demands and is not otherwise appropriated, he shall set apart the same, or so much thereof as may be necessary for the payment of such indorsed orders or demands and accrued interest.

The superintendent of schools shall forthwith give notice, in a newspaper published in the county in which he shall have his office, and, if there shall not be any newspaper in such county, then by written notice posted on the courthouse door, stating therein that he is ready to approve said order, or orders, demand, or demands.

The notice shall be dated the day of its publication or posting, and, from the first publication or posting of such notice, such order or orders, demand or demands shall cease to bear interest.

In advertising any order or orders, demand or demands, under the provisions of this Article, the superintendent of schools shall not publish the order or orders, demand or demands in detail, but shall give notice that the order or orders, or demand or demands of any particular district, specifying the district or districts, presented for approval prior to the date of said notice, are ready to be approved and that requisitions upon the county auditor will be drawn thereon.

When only a part of such order or orders, demand or demands are ready for approval and can be paid, the superintendent of schools must designate in the advertisement the order or orders, demand or demands which are approvable at the date thereof, and shall repeat such notice until notice is given of the payment of all such order or orders, demand or demands.

After the posting or publication of the notice herein provided, when any order or orders, demand or demands drawn against any school fund, indorsed as provided in this Article, shall be again presented to the superintendent of schools of any county, or city and county, for approval, such superintendent of schools shall compute the interest due on each of said order or orders, demand or demands, bearing interest under the provisions of this Article, and shall note the amount of interest on the order or demand and shall enter in the records of his office the amount of interest distinct from the principal.

The superintendent of schools shall thereupon draw his requisition upon the county auditor for the amount of said order or orders, demand or demands, and the interest computed thereon, in the manner provided by this Article and in the order in which said order or orders, demand or demands were registered in his office.

As an alternative to the method heretofore provided, when any corporation, firm, or person presents two or more warrants for payment at the same time, registered on the same date, and issued by one district against the same fund, such warrants may be consecutively numbered by the county superintendent of schools and the county auditor, and the county superintendent of schools may

compute the total sum of interest on such warrants and issue his special interest warrant upon said district and fund for the said total sum of the interest on such warrants.

The said special interest warrant shall bear the number immediately succeeding the number on the last warrant of the two or more warrants above mentioned. The interest shall be paid as a part of said order or demand by the treasurer.

Should the holders of any indorsed orders or demands fail to present the same for payment within sixty (60) days from the date of the notice herein provided for, the funds set aside for the payment of the same must be, by the superintendent of schools and the treasurer, applied to the payment of unpaid orders or demands, next in order of indorsement. If no other indorsed orders or demands shall be presented, then such money shall be applied to the payment or orders or demands not so indorsed, or otherwise disposed of according to law.

The superintendent of schools shall report to the county treasurer and the county auditor not later than the second Monday of each month, the amount of money computed as interest under this Article. Such report shall show each district for which interest has been computed on indorsed and approved orders or demands and the amount thereof for each district. The superintendent of schools shall immediately report, in writing, to the clerk or secretary of each district for which interest has been computed, as aforesaid, the amount computed for the district, of which he is clerk or secretary.[1]

Colorado.--In the State of Colorado school warrants are signed by the president and the secretary, and countersigned by the treasurer of the school district. Should there be no funds on hand to pay the warrants when presented to the treasurer, he makes such a notation thereon and the warrants bear interest until paid. By this very brief process the school district is able to finance the current operation of its schools even though there is no actual cash on hand. The warrants are issued directly to the debtors of the district. As formerly stated, there is no apparent danger in this method of short-term financing as long as the warrants issued are kept within the anticipated revenue. That the success of the entire plan hinges upon this principle is further emphasized by Campbell in the following statement:

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[1]Codes of California, 1937, Part III, Article V.

> Definite provisions should be stated in the school law regulating the power of school boards to borrow money by means of short-term notes and tax anticipation warrants. The sums so borrowed should not be allowed to exceed the unpledged income from all sources available for use during the fiscal year in which it is borrowed. The maturity of any note or warrant so issued should not fall later than the close of the current fiscal year.[1]

It can be easily realized that a strict adherence to the available revenue is the only sound financial policy for a school board to observe.

The statutes of Colorado set up the following regulations for the interest rates on school warrants:

> County, city and school warrants bear six per cent--County orders and warrants, town and city and school orders and warrants, and other like evidences or certificates of municipal indebtedness, shall bear interest at the rate of six per centum per annum from the date of presentation thereof for payment at the treasury where the same may be payable, until there is money in the treasury for the payment thereof, except when otherwise specially provided by law, and every county treasurer, town treasurer, and city treasurer to whom any such county, town, city, or school order or warrant is presented for payment, and who shall not have on hand the funds to pay the same, shall endorse thereon the rate of interest said order or warrant will draw, and the date of such presentation, and subscribe such endorsement with his official signature;
>
> Provided, That all such orders and warrants may be made to bear a lower rate of interest than above specified, by special agreement between such counties, town and cities issuing the same, and the person to whom such orders or warrants are issued.[2]

Connecticut.--No definite statutory regulations governing short-term financing are recorded in the school laws of Connecticut. Under the powers granted to each town as a school district is the authority "to lay taxes and borrow money."[3] The annual

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[1]Raymond Guy Campbell, State Supervision and Regulation of Budgetary Procedure in Public School Systems, p. 103. New York: Bureau of Publications, Teachers College, Columbia University, 1935.

[2]School Laws of the State of Colorado, 1933, sec. 486.

[3]Connecticut School Document, No. 2, 1931, chap. ix, sec. 135.

reports of the State Department of Education from 1924 to 1937 inclusive show that approximately 3 per cent of the current receipts are from short-term loans. Borrowing, whether for long or short periods of time, is governed by the provision referred to above. The school officials, therefore, have considerable freedom in their borrowing practices. The case on record of Russell v. Middletown interprets the above provision further by stating that the "power to borrow carries implied power to issue negotiable bonds."[1]

Delaware.--Inasmuch as the schools of Delaware are financed almost wholly on a state-wide basis and by legislative appropriation, there are no statutory provisions governing short-term borrowing by the local districts. However, a State School Emergency Fund is provided for the use of the governor "whenever a public school building and or the equipment thereof is destroyed by fire or other casualty and the insurance paid therefor is insufficient for the appropriate rebuilding and replacement of such building and equipment."[2] The governor may render such assistance from this emergency fund as in his judgment and discretion is deemed appropriate.

Florida.--Short-term financing of the schools has probably received more attention in Florida than in any other state, for the schools have been caught in the periods of expansion and recession for which the state is known. In 1905 regulations were written into the statutes governing the short-term financing procedures for the school districts. There were revised in 1915, 1921, 1925, 1927, and again in 1933. The main provisions for short-term borrowing are now as follows:

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[1]Russell v. Middletown, 101 Conn. 249.

[2]Laws of Delaware, 1929, Vol. 36, chap. 210.

> The County Boards of Public Instruction of the several counties of the State of Florida are hereby authorized and empowered to borrow sums not to exceed 80% of the amount of revenue reasonably expected to be received from the State of Florida, from the County School Fund and/or appropriated by the Legislature for the public free schools at a rate of interest not exceeding 8%, provided the estimate of all revenue to be received from said source has been approved by the State Superintendent of Public Instruction. Any moneys borrowed under the provisions of this Act for any fiscal year shall be repaid to the parties from whom borrowed or to whom the same may be due out of the first funds apportioned, allocated or distributable from said source to or for the county for which said money was borrowed. The right and power to borrow money herein granted shall be cumulative to the powers now existing, but the anticipated receipts from the County School Fund or from funds appropriated by the Legislature for the public free schools shall not be considered in borrowing money under any other Act. No money shall be borrowed under the provisions of this Act unless all moneys borrowed under the provisions of this Act for previous fiscal years have been repaid in full. . . . . No warrant shall be drawn against the proceeds of any loan obtained under the provisions of this Act save and except for the purpose of paying the salaries of teachers in the public free schools of the county for which the loan is obtained in the current scholastic year and for the expense incurred in the transportation of pupils in said period, and each warrant drawn must state upon such warrant that the same is drawn for one of these purposes and none other.[1]

It will be observed from the above that 80 per cent of the revenue reasonably expected to be received may be borrowed and at a maximum interest rate of 8 per cent. That great use has been made of this borrowing power was disclosed in a study made by Halsey.

> Almost every county is a constant borrower under this law, for the school year, beginning in September before taxes begin to come in requires expenditure of money from the very start. Unless a balance has been carried over from the previous year, it becomes necessary to issue tax anticipation notes, usually to local banks.[2]

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[1] School Laws of the State of Florida, 1934, chap. 16171, Acts of 1933, sec. 41.

[2] Henry Rowland Halsey, Borrowing Money for the Public Schools, p. 42. New York: Bureau of Publications, Teachers College, Columbia University, 1929.

The provision requiring that all money borrowed in one year must be repaid before loans can be made for the next year should afford protection to both the school district and the investor. Likewise protection against misuse of the borrowed funds is afforded in the provision that they must be used for teachers' salaries and transportation costs during the current scholastic year.

Georgia.--Provision is made for short-term borrowing by the schools in the State of Georgia to a liberal extent. The statutes provide in part that:

> The County Boards of Education of the several counties of this state shall have the power and authority whenever they deem it necessary to borrow sufficient amounts of money, and no more, to pay for the operation of the public schools of their counties; provided, that no board of education shall have authority under this law to borrow a sum of money greater in the aggregate than the sum which the County Board of Education may be entitled to receive from the state appropriation and from taxes levied for educational purposes during the year in which such loan is made.[1]

From the above provision it is evident that the schools may borrow practically 100 per cent of the money expected to be received from taxes and from state aid. It is obvious that such extensive borrowing would be dangerous to the investors if carried to the limit, since 100 per cent of a school tax is seldom collected. However, the reports of the State Department of Education indicate that only about an average of 10 per cent is borrowed each year in Georgia, while in the States of Illinois and Louisiana approximately 25 per cent of the total annual receipts are borrowed on a short-term basis.

The details involved in short-term borrowing in Georgia are also rigidly controlled by statute. A resolution passed by the board of education to borrow money must indicate the amount

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[1]Georgia Code, 1937, chap. 32-921.

to be borrowed, the length of time it is to be used, rate of interest, purpose for which borrowed, and from whom borrowed. No borrowing shall be made for any longer time than is necessary and the interest rate must be as low as possible. Notes of the district are executed for the money thus borrowed.

Further scrutiny of the actions of the board in their short-term borrowing is evident in the following regulations:

> Reports to grand juries. At the opening term of the superior court of each county in this state where money has been borrowed by the board of education under the provisions of this law, the county superintendent of schools shall include in his report to the grand jury the amount of money so borrowed during the preceding year, from whom borrowed, the rate of interest paid, the date or dates the same was borrowed and when paid back.[1]

> Money, how used. When any money shall be borrowed under the provisions of this law, the same shall be paid over to the county superintendent of schools and becomes a part of the public school fund of said county and the same shall be by the county superintendent of schools paid out to the teachers of said county and the county superintendent of schools shall be responsible for any money borrowed under the authority of this law and paid into his hands in the same way and to the same extent that he is responsible for any other public school funds coming into his hands.[2]

> Excessive appropriations. It shall be unlawful for any board of education to make any contract involving the expenditure of funds in excess of the total appropriation for the current fiscal year. Any indebtedness created, contract made, or order or draft issued in violation thereof shall be void.[3]

Consequently it is seen that the statutes provide numerous "checks" on the actions of the board of education even though short-term borrowing is permitted to the extent of approximately 100 per cent of the current revenue provided for the fiscal year.

The governor of the state is also given special authority

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[1]Georgia School Laws, 1937, chap. 32-925.

[2]Ibid., chap. 32-927. [3]Ibid., chap. 32-928.

to borrow money for the schools in Georgia in order to enable the state to meet its obligations in paying state aid.

> Warrants in anticipation of revenue. For the purpose of anticipating collection of the taxes of any year, the governor is authorized to draw his warrant at the end of each and every month during any year, in the favor of the state school superintendent or of the several county superintendents of schools and treasurers of local school systems, in the discretion of the state board of education, for such amount or amounts as are then due the teachers. Said warrants shall be drawn on the funds appropriated by the legislature for any year, and shall not exceed in the aggregate amount the appropriation for the public schools so made for that year. The honor of the state is pledged to the payment thereof.[1]

This regulation makes it possible to send out the state aid appropriations to the schools by recourse to borrowing by the governor even though the funds so appropriated are not on hand. If necessary the tax warrants sold under this provision may be sold at a discount "to any person, bank, or banking institution . . . . at the lowest possible rate of discount."[2] Use has recently been made of this borrowing power for the schools of Georgia by the governor of the state, as indicated by the following press report.

> Gov. E. D. Rivers informed the Georgia senate today he would borrow immediately $2,181,000 to pay long overdue school teacher salaries and avert a threatened closing of virtually all public schools late this month. . . . A mass meeting here last night of about 300 school superintendents and other educators petitioned Gov. Rivers to use his constitutional borrowing power--limited to $3,500,000--to relieve the situation.[3]

In 1935 an emergency condition in the schools of Georgia was met by special legislation. A two million dollar surplus in the State Highway Fund was transferred to the general fund so as to provide money for the payment of salaries due school teachers and school bus operators, pensions due confederate soldiers and

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[1] Ibid., chap. 32-929. [2] Ibid., chap. 32-930.

[3] Daily Times, Chicago, February 3, 1939.

their widows, and other outstanding and unpaid appropriations for the years 1928, 1929, 1930, and 1931. The order of disbursement was first for past due confederate pensions, then for past due school funds, and the balance for unpaid appropriations.[1]

Idaho.--Idaho is another of the states that achieves short-term financing by endorsing "not paid for want of funds" on its regular warrants. A maximum interest rate of 6 per cent is provided in the statute. As has already been indicated in Table 3, considerable use is made of this financial device in Idaho and 1.68 per cent of the total school expenditure is for interest on such warrants. As long as the amount of warrants issued is kept within the expected revenue for the fiscal year, there should be no difficulties encountered in such a method of short-term financing of the schools. The statutes of Idaho governing this procedure are in part as follows:

> When any warrant of any municipal or quasi-municipal corporation, specially chartered city, school district of any kind or class, specially chartered school district, drainage district, stumpage district, highway district, or other quasi-municipal district, now or hereafter created or organized, is presented for payment to the treasurer thereof or to the county treasurer, and is not paid for want of funds, the treasurer must endorse thereon "Not paid for want of funds," annexing the date of presentation, specifying the rate of interest that such warrant shall draw, after presentation, which rate shall be the rate fixed in such resolution, sign his name thereto, and thereafter the said warrant shall draw interest at the rate specified in such endorsement. In case the supervising board or board of county commissioners shall not have fixed the rate of interest that such warrants shall draw after presentation for payment, then the treasurer shall endorse thereon the rate of six per cent per annum.[2]

The warrants issued under the above statute must be registered and called for payment in the order of their registration. Likewise they cease to bear interest ten days after the posting

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[1] Georgia Laws, 1935, Act No. 4, p. 5.

[2] Idaho Laws, 1935, chap. 99, sec. 2.

of a notice that funds are on hand to pay them.

In 1935 the Legislature of Idaho passed emergency legislation for the financial relief of common school districts in distress. It may be observed from the act that the school authorities were given considerable authority in its distribution.

> Appropriation for Relief of Common School Districts in Distress.--There are certain common school districts in this state which are unable, after having levied the maximum tax permitted by law against the property within the boundaries thereof, to maintain the minimum number of months of school and the educational requirements prescribed by the State Board of Education. Therefore, for the purpose of relieving such districts, there is hereby appropriated out of the Cooperative Emergency Revenue Fund, the sum of $100,000 or so much thereof as may be necessary not otherwise appropriated, which sum is hereby made available to the State Board of Education of this State to be distributed by it in such manner and in such sums as said Board shall determine as being necessary for the relief of the common school districts of this State of the class herein designated.[1]

Two pertinent cases on record relative to the use of warrants in Idaho indicate that "common school districts may incur indebtedness during any year in an amount which does not exceed its revenue and income for that year, and orders for warrants do not exceed ninety-five per cent of such income."[2] Also that an "order by the school district is prerequisite to the issuance of a warrant on the county treasurer against school district funds."[3]

Illinois.--Methods for short-term financing are provided by two devices in the schools of Illinois, the tax anticipation warrant and the teacher's order.

School officials have no authority to issue an order,

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[1]Session Laws, Idaho, Regular 1935 and Extraordinary, sec. 29.

[2]Boise City National Bank v. Independent School District No. 40, 33 Idaho 26, 189 Pac. 47.

[3]Common School District No. 27 v. Twin Falls National Bank, 50 Idaho 668, 299 Pac. 662.

except for teachers' wages, unless there is at the time sufficient money in the hands of the treasurer to pay the same. However, "when an order for the wages of a teacher is presented to the treasurer and is not paid for want of funds, the treasurer shall endorse it over his signature, 'not paid for want of funds,' with date of presentation, and shall make and keep a record of such endorsement."[1] Teachers' orders bear interest at 6 per cent until the treasurer notifies the clerk that he has sufficient money on hand to pay the order. Likewise, the treasurer must hold the funds until the order is presented.

Tax anticipation warrants in Illinois may be issued to the extent of 75 per cent of the tax levy against which they are drawn and in school districts where a working cash fund has been established, the issuance may be up to 90 per cent of the levy. These warrants must show upon their face that they are payable in the numerical order of their issuance and solely from the taxes against which they are issued. Holders of the warrants may use them in payment of taxes against which they are issued. The maximum interest rate allowed is 6 per cent. The interest is payable only from the particular levy against which the tax warrants are issued.

Considerable freedom is given to the boards of education in managing the details for the sale of their warrants. In some districts they are issued directly to the debtors of the district, but in most cases they are sold to a bank or other investment firm. The following statute applies to warrants issued in the State of Illinois:

> When there is no money in the treasury of any school district of this State, whether governed by either or both the general school laws, or any special charter, to defray the necessary expenses of the district, including

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[1] School Law of Illinois, 1935, sec. 81.

> amounts necessary to pay maturing principal and interest of bonds, the directors, board of education, or board of school inspectors, as the case may be, may issue warrants, or may provide a fund to meet said expenses by issuing and disposing of warrants, drawn against and in anticipation of any taxes levied for the payment of the necessary expenses of the district, either for educational or for building purposes, or for the payment of maturing principal and interest of bonds, as the case may be, to the extent of seventy-five per cent of the total amount of the tax so levied. Such warrants shall show upon their face that they are payable in the numerical order of their issuance solely from such taxes when collected, and shall be received by any collector of taxes in payment of the taxes against which they are issued, and such taxes shall be set apart and held for their payment.
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> Every warrant issued under the provision of this section shall bear interest, payable only out of the taxes against which it is drawn, at a rate not exceeding six per centum per annum, from the date of its issuance until paid or until notice shall be given by publication in a newspaper or otherwise, that the money for its payment is available and that it will be paid on presentation, unless a lower rate of interest shall be specified therein, in which case the interest shall be computed and paid at said lower rate.[1]

Indiana.--The statutes of the State of Indiana have four provisions for short-term borrowing to operate the schools. They are as follows:

1. Borrowing 33 1/3 per cent of the current year's taxes.

2. Borrowing to the extent of 75 per cent of the delinquent taxes.

3. Borrowing from different funds within the district.

4. Borrowing in cases of special emergencies, sums not provided for in the levy, and authorizing the levy of a special tax therefor.

The first of these, providing for the borrowing of 33 1/3 per cent of the current tax levy, outlines in detail the procedure for the school officials to follow.

> School Boards--Temporary Loans. Whenever it is found by the board of school trustees or other proper

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[1] Illinois Annotated Statutes, Smith-Hurd, Vol. 5, chap. 122, sec. 309.

> authorities of any school city or school town that an emergency exists for the borrowing of money with which to meet the current expenses of the schools of such school town or school city, the board of school trustees or other proper authorities of such school city or school town may make temporary loans in anticipation of the current revenues of such school town or school city to an amount not exceeding thirty-three and one-third (33 1/3) per cent of the amount actually levied and in course of collection for the fiscal year in which such loans are made; but, Provided, however, That in all school cities of the first, second, third, fourth, and fifth classes, no such loans shall be borrowed in excess of the sum of twenty thousand dollars ($20,000) until the letting of the same shall have been advertised once each week for two (2) successive weeks in two (2) newspapers of general circulation published in such school city, and until sealed bids have been submitted at a regular meeting of the school board of such school city, pursuant to such notices, stipulating the rate of interest to be charged by such bidder: and, Provided, further, That such school loan shall be made with the bidder submitting the lowest rate of interest and submitting with his bid an affidavit showing that no collusion exists between himself and any other bidder for such loan.[1]

Further regulations require the authorization of the temporary loans by a resolution and at an interest rate not in excess of 6 per cent. The warrants may be issued directly to persons, firms, and corporations in payment of approved services or materials and supplies.

The second provision governing short-term financing in Indiana permits the issuing of tax anticipation warrants to the extent of 75 per cent of the delinquent taxes. In the issuance of these warrants the following requirements are set up.

1. No warrants can be issued until the taxes have been delinquent for at least a month.

2. The interest rate must not exceed 4 per cent.

3. They shall mature in not less than ten years.

4. They must be made payable to bearer and are negotiable as inland bills of exchange.

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[1] School Laws of the State of Indiana, 1935, sec. 883.

5. They must be sold at par.

6. A complete record must be kept of the purchasers.

7. They may be used to pay taxes or other obligations owing the issuing body.

8. Notice shall be given in writing, by posting, and through the newspaper whenever funds are on hand to pay the warrants.

9. If the warrants are not paid in ten years, an appropriation may be made or a special tax levied to pay them.

10. It is a misdemeanor to purchase such warrants from a holder at a discount of more than 8 per cent, punishable by a fine of $300 and imprisonment not exceeding six months.[1]

The third method of short-term borrowing in Indiana provides for making temporary loans from the various funds within the district. This provision is similar to one of the methods used for short-term financing in the State of California.[2] Before such a temporary loan from other funds in the district can be made in Indiana, it must be shown that an emergency exists. Likewise no temporary loan can be made from such funds if the money will be needed in the original fund before the loan could be repaid. All such temporary loans shall be made without the payment of interest. This is perhaps the most desirable feature of the entire plan and should result in a considerable saving to the district. There are several other requirements necessary in making a loan of this type. These include a majority vote of the board, designation of the fund from which the loan is to be made, the amount, the fund to which the loan is to be made, and the length of time that the loan will

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[1] Burns Indiana Statutes, 1933, Vol. II, chap. 64-2701.

[2] Codes of California, 1937, sec. 4.290.

run. The fund receiving the loan must use it in the same manner and subject to the same restrictions as are necessary for the regular expenditures from the fund.[1]

The fourth method for short-term financing in Indiana is set up to meet an emergency need for expenditures not included in the existing estimates and levy. When such an emergency exists the board may authorize its trustee to borrow a sum of money sufficient to meet the emergency needs. A levy may then be made to pay off the money borrowed.[2] The importance of there being an "emergency" in order to make use of this statute is emphasized in the case of Pipe Creek School Township v. Hawkins where the court said in part that "before an advisory board can authorize a township trustee to borrow money, the board must find and enter of record that an emergency exists for such money, and a debt incurred for money loaned without such finding and record cannot be enforced."[3]

It may be seen from the provisions of the four statutes reviewed above that there is ample opportunity for short-term borrowing by the schools of Indiana. However, the reports of the State Department of Education indicate that only about 3 per cent of the entire financial operations of the schools is represented by temporary loans.

Iowa.--In the State of Iowa school officials use the regular school warrant endorsed "not paid for want of funds" when it is necessary for them to finance their schools for a short period

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[1]Burns Indiana Statutes, 1933, Vol. II, chap. 28-2206.

[2]Ibid., chap. 65-313.

[3]Pipe Creek School Township v. Hawkins, 49 App. 595, 97 N.E. 936.

of time without any available cash. In addition to the above method, the state treasurer, with the approval of the executive council, may issue tax anticipation warrants to pay the certified claims which school districts may have against the state sinking fund.

The borrowing power of the state treasurer on such anticipatory tax warrants is limited to $3,500,000. They must be sold at par plus accrued interest, which may not exceed 5 per cent. Their offering for sale must be advertised in a newspaper. Both sealed and open bids may be submitted, or thereafter they may be sold at private sale upon terms as favorable as the best bid received. Firms or individuals residing in Iowa are given preference in the purchase of the warrants. No commission of any kind can be paid to anyone in connection with the sale.[1]

Kansas.--The statutes of Kansas in regard to the use of tax warrants were revised considerably by the actions of the legislature in 1933. Prior to May 1 of that year school districts used a regular school warrant and had the same endorsed "Presented and not paid for want of funds" whenever there was no money on hand to pay them. However, the statute now says in part that "it shall be unlawful after May 1, 1933 . . . . to create any indebtedness in excess of the amount of funds actually on hand in the treasury of such municipality at the time for such purpose, or to authorize the issuance of any order, warrant, check, or other evidence of such indebtedness . . . . in excess of the funds actually on hand,"[2] and the school officials are prohibited from knowingly issuing, signing, attesting, or countersigning any such document.

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[1]Iowa School Laws and Decisions, 1935, chap. 352-A1, sec. 7420-b3.

[2]Kansas School Laws, Revised, 1937, chap. 16, sec. 389.

A new statute governing the issuance of tax warrants has been inaugurated in Kansas.[1] Permission must now be received from the State Tax Commission before a school district may issue tax warrants. The amount of the issue cannot exceed 25 per cent of the money that can be raised by the tax levy for the current year. It is necessary that there be an "emergency" need for the funds for general maintenance expenses. A public hearing before the tax commission is also necessary before it will give its approval to the issue. Notices of the hearing must be published in at least two newspapers.

It is evident that the entire process is very detailed and it takes considerable time to put it into operation. In all probability the many details involved have limited the use that has been made of the statute. That short-term borrowing by the schools of Kansas has been very meager is evident when we note that during the first three years (1934-1936) of existence of the statute, only .08 per cent of the total school receipts were from these emergency tax warrants. The amounts involved during these three years are shown in Table 3.

TABLE 3

TOTAL SCHOOL RECEIPTS AND RECEIPTS FROM EMERGENCY TAX WARRANTS IN KANSAS FROM 1934 TO 1936

Year	Total Receipts	Emergency Tax Warrants	
		Issued During the Year	Per Cent of Total Receipts
1936. . . .	$32,992,287	$26,507	0.078
1935. . . .	32,436,147	28,994	0.089
1934. . . .	31,253,238	31,970	0.102
Average	.....	.....	0.080

[1] Laws of Kansas, 1933, chap. 309, sec. 23.

Kentucky.--The statutes of the State of Kentucky are very liberal in the authority which is granted boards of education to borrow money in anticipation of tax revenues. The entire procedure is governed by the following brief paragraph:

> Any board of education shall have the power and authority to borrow money on the credit of the board and to issue negotiable notes in anticipation of revenues from school taxes for the fiscal year in which the money is borrowed, and the board may pledge the said school taxes for the payment of principal and interest on said loan; provided that in no case shall the rate of interest charged exceed six per cent (6%), and that the principal shall in no case exceed seventy-five per cent (75%) of the anticipated revenue for the fiscal year in which the same is borrowed. In all cases in which such loans are made, they shall be repaid within the fiscal year in which they are borrowed.[1]

Many details outlined in the statutes of some of the states are left to the discretion and integrity of the school boards in Kentucky. In an interpretation of the above law in the case of Waller v. Georgetown Board of Education, the courts of Kentucky said in part that the statute "investing the board of education to borrow money in anticipation of taxes constitutes a limitation on the actual borrowing of money, and not on the power to incur an indebtedness or obligation."[2] Ample protection appears to be afforded to both the investor and the school district by limiting the issuance to 75 per cent of the tax levy and requiring that the sums borrowed be repaid within the same fiscal year in which they are borrowed.

Louisiana.--Two distinct methods for making short-term loans are found in the statutes of the State of Louisiana. By the first of these, school districts are authorized to issue "Certificates of Indebtedness" in payment of any debts, matured or

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[1] Carroll's Kentucky Statutes, 1934, sec. 4399-44.

[2] Waller v. Georgetown Board of Education, 209 Ky. 726.

unmatured, except for bonded indebtedness. These short-term obligations are paid off by pledging for such purpose not to exceed two mills of the total school tax.[1] The certificates may be issued directly to the debtors or they may be sold to investors and the proceeds used to retire the debts. They must be sold for at least ninety-five cents on the dollar and accrued interest.

Further regulations controlling their issuance indicate that they must be

1. Authorized by an ordinance or resolution by the school board.

2. The interest rate cannot exceed 7 per cent.

3. They must be paid within fifteen years after being issued.

4. They must be advertised for sale on sealed bids.

5. The funds provided from the two-mill tax must be kept separate from other funds and held available to pay the interest and principal on the certificates when they are called for payment.

The second provision of the statutes gives school boards the authority to borrow money against the taxes covering their current budget. After the budget has been adopted, a school board may borrow 50 per cent of its expected revenue receipts for current operation, and if the school district has a population of two hundred thousand or more, the board may borrow to the extent of 75 per cent.[2] The school board executes its notes for the loan received. These notes are payable before the close of the school year and the revenues for the fiscal year are pledged toward their

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[1] Fifteenth Compilation of School Laws, Louisiana, 1936, Act No. 178 of 1932.

[2] Ibid., Act No. 100 of 1922, sec. 32.

payment. A resolution authorizing the issuance must be recorded in the minutes of the board. Should an officer of the school or any other person assist in any manner in the borrowing of money beyond the budget or in excess of the amount provided by the statute, he is guilty of a misdemeanor. The penalty for such a conviction is removal from office and a fine of from $250 to $1,000.

Maine.--No provisions for short-term borrowing are found in the statutes of the State of Maine and no such loans are reported in the annual reports of the Department of Education. The statutes do provide that if there is any unexpended balance at the end of the school year that it "shall be credited to the school resources for the year following that in which said unexpended balance accrued."[1]

Maryland.--No provisions are found in the statutes of the State of Maryland to regulate the short-term financial procedures of its school officials. Apparently what little short-term borrowing is done is negotiated under the general powers and duties of the school boards to operate public schools.

Massachusetts.--Since the school district is a department of the city or town government in Massachusetts, the laws relating to financing the schools are those which govern municipal finance in general. Definite provision is made for financing the various departments of government during the interval between the disbursing of the appropriations and the close of the fiscal year.

> Town officers may incur liabilities between December 31 and next appropriation. In towns, during the interval between December thirty-first in each year and the time of making the next annual appropriations, town officers authorized to make expenditures may incur liabilities in carrying on the several departments intrusted to them, and payments therefor shall be made from the town treasury

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[1]State of Maine, Laws Relating to Public Schools, 1935, sec. 18.

> from any available funds therein, and the same shall be charged against the next annual appropriation; provided, that the liabilities incurred during said interval do not exceed in any month the sums spent for similar purposes during any one month of the preceding year; and provided, further, that said officers may expend in any one month for any officer or board created by law an amount not exceeding one-twelfth of the estimated cost for said year; but all interest and debt falling due in the said interval shall be paid.[1]

Strict adherence to the appropriations is required by all the departments of any city or town, and no liability may be incurred in excess of the appropriations in any town or city but Boston. Exception is made only in "cases of extreme emergency involving the health and safety of persons or property, and then only by a vote in a city of two-thirds of the members of the city council, and in a town by a vote of two-thirds of the selectmen."[2] Further provision for financial emergencies has recently been made by an Act authorizing cities to increase their appropriations for reserve funds. "To provide for extraordinary or unforeseen expenditures, a city may, prior to the date when the tax rate for the year is fixed, appropriate a sum not exceeding one and one-half per cent of the tax levy for the preceding year to be known as a reserve fund."[3] No direct drafts may be made against the fund, but temporary transfers may be made to the various departments of the municipal government if needed.

Michigan.--School districts in Michigan are authorized to borrow money in anticipation of the collection of taxes and delinquent special assessments. Notes bearing interest not to exceed 7 per cent are given for the money borrowed. Before any notes can

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[1]General Laws Relating to Education, Massachusetts, 1932, chap. 44, sec. 13.

[2]Ibid., sec. 31.

[3]General Laws of Massachusetts, 1937, chap. 34.

be issued, permission must be obtained from the "Loan Board" which consists of the State Treasurer, the Attorney General, and the Auditor General. This board decides whether or not a loan shall be made and if so, to what extent.

Tax anticipation notes may be issued against four different sources of income, namely, the next year's taxes, the current year's taxes, delinquent taxes, and delinquent special assessments.[1] A resolution of the school board and permission from the state "Loan Board" are prerequisites to any issue. A brief summary of each plan follows:

1. Money borrowed in anticipation of the collection of taxes for the next succeeding fiscal year cannot exceed 10 per cent of such tax levy. Funds must be set aside from the tax to pay the loan when due.

2. School districts may borrow in anticipation of the collection of taxes for any current year to an extent of 80 per cent of the amount of unpaid taxes at the time of the passing of the resolution. Should such a loan be made previous to the time the current taxes become payable, the loan is limited to 60 per cent of the tax of the previous fiscal year. The loans must be paid not later than ninety days after the close of the fiscal year.

3. Borrowing in anticipation of the collection of delinquent taxes for any preceding year or years may be made to the extent of 60 per cent of such taxes.

4. Money may also be borrowed to the extent of 80 per cent in anticipation of delinquent installments of special assessments.

The proceeds of the tax anticipation notes must be used for the payment of debts and for the necessary maintenance expenses of the issuing body. The notes are made payable to the "bearer"

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[1] Public and Local Acts, Michigan, 1935, Act No. 26 of 1931.

and may be in the form known as "scrip." They are also receivable in payment of taxes for the current, preceding, and next fiscal year as well as for delinquent special assessments.

Minnesota.--Two provisions for short-term financing are available for use by the school districts of the State of Minnesota. The first of these is the regular school order endorsed "not paid for want of funds" and registered for future payment by the treasurer at an interest rate not to exceed 6 per cent. Whenever funds become available for payment of the orders, the treasurer serves written notice on the holder and the interest ceases.

The second plan authorizes school districts to borrow up to 65 per cent of the current tax levy by pledging the proceeds to be anticipated from the tax.[1] Authority for the issuance of these tax warrants must be evidenced by a resolution of the school board. The proceeds may be used for the purpose of meeting the obligations of the ensuing year. Further provisions of the statutes are:

1. Interest rate may not exceed 6 per cent.
2. Warrants must be numbered consecutively.
3. They must be sold at par and accrued interest.
4. They must be issued in denominations of $25.00 or multiples thereof.
5. They must be paid from the tax receipts against which levied, and if such taxes are insufficient, from other funds of the district.

This is the only statute on record that sets up a regulation governing the denominations in which the warrants must be issued. No doubt their issuance in such denominations tends to stimulate their use as negotiable paper in paying current obligations.

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[1] Mason's Minnesota Statutes, 1938 Supplement, chap. 14, sec. 2807-22.

Mississippi.--The State of Mississippi has on record several laws which permit short-term borrowing by the school districts. Some of them have been on record for many years while others have been recently added so as to give school districts in Mississippi an opportunity to use some of the funds recently made available from the United States Government.

The first of the provisions very broadly says that "the boards of supervisors in various districts are authorized to borrow money to pay teachers' salaries and school carriers during the months of the session when there are no school funds in the treasury for such purpose."[1] Whatever lawful interest rate is necessary may be paid on the money so borrowed. The loan may be repaid either out of funds received from the state or from the local tax levy.

The second statute gives any school district authority to borrow money in anticipation of taxes to the extent of 50 per cent of the "anticipated revenue to accrue . . . . as ascertained from the last assessment roll of real and personal property of such district."[2] The proceeds may be used for the purpose of paying all expenses authorized by law for operation of the schools. A note signed by the proper school officials is given as evidence of the loan.

A third provision for short-term financing in the schools of Mississippi permits school districts to borrow money for the purchase of material, supplies, and equipment necessary to complete projects financed in part by an "agency of the United States of America."[3] The proper school authorities may issue negotiable

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[1] Mississippi Code, 1930, chap. 163, sec. 6615.

[2] Ibid., chap. 241, sec. 6728.

[3] General Laws of Mississippi, 1936, chap. 282.

interest-bearing notes or bonds at an interest rate not exceeding 6 per cent. These obligations must mature in from one to ten years. The total funds so borrowed cannot exceed 25 per cent of the amount obtained or to be obtained from the agency of the federal government and in no case can they exceed 1 per cent of the total taxable property of the district. A special tax is levied to pay the interest and principal of the notes as they become due.

A fourth statute gives consolidated school districts authority to borrow not to exceed $5,000 for the purposes and under conditions similar to those given in the paragraph above.[1] However, 50 per cent of the electors in the consolidated district must petition the board of trustees, asking that the loan be negotiated.

Under another statute the trustees of any type of school district may upon a resolution adopted by a majority vote of the members, obtain a short-term loan for the purpose of making additions and repairs, and for purchasing heating plants, fixtures, and equipment for educational buildings.[2] Negotiable notes or certificates of indebtedness are given as evidence of the loan. The interest rate cannot exceed 6 per cent. All loans must be repaid within five years from the proceeds of a special tax levied for that purpose.

In a city or town where the governing authority has supervision over the fiscal affairs of the municipal separate school district, the borrowing of money for the purpose of purchasing heating plants, fixtures, and equipment for educational buildings must be done with the consent of the mayor and board of aldermen, or the mayor and the commissioners as the case may be.[3]

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[1] Mississippi Laws of 1938, chap. 228.

[2] Ibid., chap. 226.

[3] Ibid., chap. 225.

It is evident from the foregoing discussion that the schools of Mississippi are provided with numerous devices for meeting emergencies that require short-term borrowing. Likewise there has been an attempt by the legislature to keep pace with the opportunities provided by the federal government to improve the general status of the schools in Mississippi.

Missouri.--No provision is made for the issuance of tax anticipation warrants or other short-term loans in the State of Missouri. The constitution of the state definitely says that "no county, city, town, township, school district, or other political corporation or subdivision of the state shall be allowed to become indebteded in any manner or for any purpose to an amount exceeding in any year the income and revenue provided for the year."[1] Regular school warrants are used for the payment of teachers' salaries but "no partial payment shall be made upon any school warrant, nor shall any interest be paid upon such a warrant."[2] An opinion of the Attorney-General of Missouri dated June 12, 1933, states that "school boards cannot be compelled to draw warrants when there is no money in the funds--the debt exists regardless of whether the warrant is issued or not."[3] In another opinion released on May 11, 1936, it was said that "warrants may be issued only against the income and revenue of the current year which includes back taxes which have no warrants against them."[4] This principle is further emphasized by a case on record in which the courts of Missouri said in part that "directors are not personally liable for a school warrant when there is not money in the treasury to pay same, provided

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[1] Constitution of Missouri, Article X, sec. 12.

[2] Missouri School Laws, 1938, sec. 9312.

[3] Ibid., p. 70.

[4] Ibid.

they have not issued warrants in excess of the taxes levied and other income of the district for the year."[1] It is evident therefore, that the statutes of Missouri intend that the school officials shall keep their expenditures within their income.

Montana.--School districts in Montana have authority to issue tax warrants in anticipation of the collection of school taxes for which levies have been made. The proceeds of the warrants must be used for paying the current expenses of the school district. The warrants may be issued to the extent of 90 per cent of the taxes levied for current expenses for the fiscal year, plus all revenues actually received from all other sources during the same fiscal year.[2]

This appears to be a very liberal provision for short-term borrowing. It is evident that "other revenues" includes funds expected from state aid, tuition, fees, federal aid, etc., so that borrowing to the extent of 90 per cent grants considerably more authority than if it were limited to taxes alone. None of the details involved in the issuance are recorded in the statutes. This places considerable responsibility upon the school boards to develop a financial policy that will protect both the credit of the district and the funds of the investor.

Nebraska.--The statutes of the State of Nebraska permit short-term financing by the use of regular school warrants endorsed "registered for payment," when there are no funds on hand to pay them.[3] Interest is paid at the rate provided by law for registered state warrants. All warrants, with the exception of those under

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[1] Jacquemin v. Andrews, 40 A. 507.

[2] Revised Codes of Montana, 1935, chap. 93, sec. 1012.

[3] Nebraska School Laws, 1938, chap. 77, sec. 2403.

twenty-five dollars, must be paid in the order of their registration. Notices are mailed and published in a newspaper when funds are available for their redemption.

Special legislation grants districts with a population of forty-thousand to one hundred thousand authority to issue promissory notes to the extent of 70 per cent of the unexpended balance of the current tax levy.[1] These notes must mature within one year and are paid in order of registration by the treasurer.

Nevada.--In cases of great necessity or emergency, school officials in Nevada may authorize a temporary loan to provide necessary funds for maintaining the schools. An emergency resolution must be unanimously adopted by the school board and approved by the State Board of Finance before the temporary loan may be negotiated. Negotiable notes or short-term negotiable bonds are issued as evidence for the loan. These bear interest at a rate not exceeding 8 per cent and must mature not later than two and a half years from the date of issuance. An emergency tax is levied to provide funds for their redemption.[2]

In March, 1933, the legislature of Nevada passed an emergency Act to authorize counties of the State of Nevada to issue negotiable interest-bearing warrants for payment of salaries and other necessary expenses of the county and schools, and other matters relating thereto.[3] Such warrants were endorsed "not paid for want of funds" when there was no money on hand to pay them. The warrants were registered by the treasurer in their order of presentation and bore interest at 4 per cent. The Act was entirely

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[1]Compiled Statutes Supplement, Nebraska, 1937, chap. 79, sec. 2629.

[2]State of Nevada School Code, 1935, sec. 3020-3022.

[3]Statutes of Nevada, 1933, chap. 89.

an emergency measure and was in force only until December 31, 1937.

New Hampshire.--The statutes of the State of New Hampshire are very liberal in the power granted to boards of education to borrow money. The brief regulation states that "a school district may authorize its school board to hire money for any purpose . . . . at the annual meeting, by a majority vote of the legal voters present and voting,"[1] and that "if the money is hired upon the note or notes of the district, said note or notes shall be signed by the district treasurer and by the school board."[2]

It is evident that the school board must use its own discretion in determing the limitations, interest rate, and maturity date for borrowed funds. This is the broadest grant of power concerning school finance to be found anywhere in the statutes. The regulations set up to meet emergency conditions are contained in the following provision: "In case of an emergency arising in a school district for which immediate expenditure of money is necessary, the school district through its school board may appeal to the superior court for permission to hold a special district meeting which, if granted, shall give said district meeting the same authority as the annual district meeting."[3] Borrowing, therefore, whether it is for a long or short period is left to the integrity of the school board. As has already been indicated in this chapter, over a period of seventeen years (1920-1936) only five-tenths of one per cent of the total expenditures for education in New Hampshire have been for the redemption of short-term notes. Apparently there have been but few instances where it was necessary to use extensively the emergency borrowing power authorized.

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[1] Public Laws of New Hampshire, 1937, chap. 119, sec. 3.

[2] Ibid., sec. 4.

[3] Ibid., chap. 120, sec. 3.

New Jersey.--School boards in the State of New Jersey are authorized to borrow up to 50 per cent of the amount appropriated for the current expenses of the schools and for the repair of school houses. Promissory notes bearing interest at a rate not exceeding 6 per cent are executed as evidence of the temporary loan. The money must be borrowed after July first and before January first of the current year covered by the appropriation.[1]

In addition to the sums indicated above, the school boards may also borrow by temporary loan not to exceed 80 per cent of the amount that will be apportioned from the tax on railroad and canal property,[2] and 80 per cent of the amount due the district as tuition from other districts.[3] The proceeds from these temporary borrowings may be used to pay for past due services, wages, salaries, and other obligations. The notes or scrip issued as evidence of the loans may be accepted in payment of taxes or other obligations owing the issuing body.

An unusual type of short-term borrowing is allowed after the voters of a district have approved the issuance of so-called "permanent bonds." The statutes indicate that "the board may issue promissory notes or temporary loan bonds in anticipation of the issuance of permanent bonds. The notes or temporary loan bonds may be issued from time to time as the money is required for the purposes for which the permanent bonds are authorized."[4] These notes or temporary loan bonds must mature within one year, but can be renewed until the elapse of three years from the original date of issuance, when they must be permanently retired.

New Mexico.--The statutes of the State of New Mexico

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[1] New Jersey School Laws, 1938, chap. 18:6-58.

[2] Ibid., chap. 18:10-37. [3] Ibid., chap. 18:14-7.2.

[4] Ibid., chap. 18:7-100.

authorize county and municipal boards of education to borrow money for school maintenance expenses upon certificates of indebtedness. The consent of the educational budget auditor must be given to their issuance, and they must be issued in anticipation of taxes which have already been levied. The interest rate cannot be in excess of 8 per cent.

The statutes further provide that these certificates "shall be issued on the faith and credit and on behalf of the district for which such money is borrowed, and the total amount of such certificates issued and unpaid by a district shall not at any one time be in excess of the budget allowance for maintenance of schools in such district for a period of ninety days."[1] They must be repaid from the first money accruing to the district. Borrowing on certificates of indebtedness for the construction and repair to school buildings may also be authorized if a tax has previously been levied for that purpose.

New York.--School boards in the State of New York may borrow money in anticipation of taxes remaining uncollected for the current fiscal year and in anticipation of the moneys to be apportioned by the state during the current fiscal year.[2] Certificates of indebtedness are issued as evidence of such loan. They must be repaid during the current fiscal year or within nine months thereafter. The proceeds may be used for paying the current expenses of the district.

A new type of law for meeting financial emergencies is provided by the statutes of New York. It often happens that a school district loses or has its funds tied up when a bank closes.

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[1] New Mexico Statutes, 1929, sec. 120-810.

[2] Cahill's Consolidated Laws of New York, 1938 Supplement, chap. 15, sec. 310 (19).

Power to borrow money for the purpose of meeting such a temporary emergency is authorized by the following statute:

> Notwithstanding the provisions of any general or special law, upon the failure, insolvency, or suspension of any banking institution, which held money on deposit for the account of . . . . school district, the governing body of such municipality is hereby authorized to borrow on the faith and credit of such municipality an amount equal to such moneys on deposit and issue bonds or other obligations as an evidence of such debt. Such bonds or other obligations shall mature at such time, not exceeding ten years, and in such amounts as the governing body may determine. Such bonds or other obligations shall be sold in the same manner as other bonds of such municipality are required to be sold. The governing body shall annually levy, assess, and collect a tax sufficient to pay the principal and interest on all bonds or other obligations issued hereunder as the same shall respectively become due, provided, such tax shall be reduced in any year by the amount received by the municipality upon the liquidation of such banking institution.[1]

North Carolina.--The County Commissioners in the State of North Carolina are authorized to borrow sufficient money to maintain a six months school term. No restrictions are placed on the manner in which such funds may be obtained. This gives the school officials considerable authority in negotiating the details for short-term loans. Notes of the county are given in evidence of the money so borrowed. Sufficient taxes must be levied during the next ensuing year to retire the notes.[2]

The reports of the State Superintendent of Public Instruction indicate that considerable use is made of the borrowing power authorized above. Over a period of twenty-three years (1915-1937) approximately 12 per cent of the total receipts and 20 per cent of the current receipts for the public schools of North Carolina were from short-term loans. The interest rate on such loans is not set by the statute.

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[1]Cahill's Consolidated Laws of New York, 1931-35 Supplement, chap. 26, sec. 9-a.

[2]North Carolina Code of 1935, Annotated, sec. 5610.

North Dakota.--There are several provisions in the laws of North Dakota for financing schools on a short-term basis. The first of these authorizes school districts to borrow in anticipation of revenues to be derived from taxes already levied.[1] The amount that may be borrowed at any time cannot exceed the delinquent taxes for the current fiscal year, plus the uncollected taxes for the four preceding years. It is evident that this is equal to borrowing against the total outstanding taxes for a period of five years exclusive of the levies for retiring bonds and interest. Certificates of indebtedness are issued in evidence of the money so borrowed. These certificates are governed by the following provisions:

1. They must mature within twenty-four months from the date of issuance.

2. The interest rate may not be in excess of 7 per cent and is payable semi-annually.

3. The signatures of the president and the secretary of the board and the county auditor must be affixed to them.

4. They are payable out of funds derived from delinquent taxes levied for the current tax year and four previous years.

5. They are general obligations of the issuing tax district.

6. Their offering for sale must be advertised and bids may be submitted.

7. They are fully negotiable and incontestable when legally issued and registered with the county auditor.

The county auditor must provide a statement to be attached to the certificates of indebtedness indicating that they are within

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[1]General School Laws, North Dakota, 1935, chap. 19, sec. 420.

the amount of delinquent taxes for the current and four preceding years. It is a misdemeanor to issue them in excess of the amount specified in the statute.

Another statute authorizes school districts to issue bonds to retire outstanding warrants. "It is the intention of this act to place the business of all taxing districts upon a cash basis as nearly as may be and to that end to provide for the funding of warrants outstanding at the time this act takes effect."[1] The interest rate on these bonds cannot exceed 7 per cent and they must be retired within ten years from the date of issuance by a special tax levied for that purpose.

Short-term financing may also be achieved by issuing warrants for current expenses.[2] This is permitted when taxing districts are unable to sell their certificates of indebtedness. The warrants may be issued in excess of the cash on hand, but not in excess of unencumbered uncollected taxes. Considerable use of this statute is made by authorizing the payment of salaries and wages one-half in cash and one-half by a warrant which is registered by the treasurer and paid in order of registration with interest.

From these provisions it appears that ample opportunity is afforded school officials in North Dakota to finance their schools on a short-term basis. Data in the reports of the State Superintendent of Public Instruction indicate that over a period of twenty years (1919-1938) the outstanding warrants and certificates of indebtedness represented an average of 21 per cent of the total expenditures for public schools.

Ohio.--Two provisions for short-term borrowing by school districts are recorded in the statutes of the State of Ohio. One of these permits borrowing in anticipation of taxes and the other

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[1] Ibid., sec. 425. [2] Ibid., sec. 432.

in anticipation of funds to be received from the state. Under the first provision the taxing authority may borrow and issue notes in an amount not to exceed 50 per cent of the revenue estimated to be received from taxes for the fiscal year. The notes shall run for a period not longer than six months. The proceeds must be used for the purposes for which the anticipated taxes were levied.[1] When the taxes are collected, the money must be set aside to pay the notes.

School districts may borrow an amount equal to the entire proceeds certified as owing to the district from state school funds. Notes bearing interest not exceeding 4 per cent and payable within a year from the date of issuance are negotiated as evidence of the loan. The proceeds of the notes can be used only for the purposes of paying current operating expenses. Likewise they must be sold at par and accrued interest. When the notes are called for redemption, the principal is paid from the funds apportioned by the state and the interest from the general fund of the district.[2]

Oklahoma.--The statutes of the State of Oklahoma authorize the use of warrants and certificates of indebtedness as a means of financing the schools during the periods when cash funds are not available. These may be "issued to the amount of the estimate made and approved by the excise board for the current fiscal year."[3] The regulations indicate that the warrants and certificates of indebtedness must be registered and numbered in the order of issuance, and that they shall bear interest at the legal rate.

A sinking fund is provided by adding a margin of 10 per

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[1] Baldwin's Ohio Code Service, June, 1938, sec. 2293-4.

[2] Ibid., sec. 2293-80-86.

[3] Oklahoma Statutes, 1938, sec. 5952.

cent to the original estimate to take care of interest charges and delinquent taxes. The amount of warrants and certificates of indebtedness issued cannot include this 10 per cent.[1] Strict adherence to the amount of the estimate is required, and it is a misdemeanor, punishable by a fine of from $100 to $1,000 to issue or pay warrants in excess of the estimate. Authority is granted to the treasurer to use other funds of the district to redeem the outstanding warrants in an amount not to exceed 50 per cent of the total tax levy.

The importance of keeping expenditures within the funds allowed was emphasized in an opinion of the Attorney General of Oklahoma rendered on October 15, 1935, which said in part that "unless a sufficient amount for payment of teachers' salaries for May is included in the estimate of the district, they are not payable."[2] It is also observed that a "warrant for an amount partly within and partly in excess of valid appropriation is valid as to amount within appropriation."[3]

Oregon.--Warrants endorsed "not paid for want of funds" form the basis upon which most of the short-term financing by the schools of Oregon is done.[4] These warrants may be issued directly to the debtors of the district or they may be offered for sale at par and accrued interest. Warrants bear interest at the legal rate (6%) but the rate may be fixed lower and be made payable semi-annually upon the adoption of a resolution to that effect by the board. They are payable in the order in which they are endorsed for payment by the treasurer. As is the case in many other

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[1] Ibid., sec. 5950. [2] Ibid., p. 652.

[3] Board of Commissioners v. Central National Bank, 171 Okla. 42, 41 P. 2d 853.

[4] Oregon Code, 1935 Supplement, sec. 35-1114.

states, warrants may be used for the payment of any tax levied for the fund on which they are drawn.[1]

Power is also given school boards to borrow up to five thousand dollars but not in excess of 5 per cent of the value of the taxable property of the district, to build, repair, furnish, or buy land for school buildings. Authority must first be obtained "by a majority vote of the legal voters present and voting at any legally called school meeting."[2] Negotiable interest-bearing warrants are issued as evidence of the debt and a special tax is levied for their payment.

An opinion of the Attorney General of Oregon rendered on December 27, 1923, said in part that "warrants issued for current expenses for years 1923-1924 can be paid from taxes levied and collected for current expenses for the years 1924-1925."[3] Apparently a warrant remains the obligation of the issuing body even though sufficient funds are not collected to pay it from the taxes against which it was originally issued.

Pennsylvania.--School districts in the State of Pennsylvania may incur temporary indebtedness within the following limitations:

1. Not to exceed four-tenths of one per cent of the taxable property in districts of the first and second class.

2. Not to exceed 1 per cent of the taxable property in districts of the third and fourth class.

In no case may the total amount of indebtedness incurred without assent of the voters exceed 2 per cent of all taxable

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[1] Ibid., sec. 69-709. [2] Ibid., sec. 35-1104.

[3] Oregon School Laws, 1937, p. 57.

property.[1] An affirmative vote of two-thirds of the board members is necessary to authorize the borrowing. The obligations must be repaid from current revenue within two years and may bear interest at the legal rate.

The length of the term for temporary loans for permanent improvements was extended to three years by Act No. 601 of 1937. Further provision was also made "that in case of an emergency, additional temporary loans may be incurred with the approval of the Superintendent of Public Instruction, and that payroll obligations shall be preferential claims on the current expense budget."[2]

Legislation was passed on July 1, 1937, to validate all temporary loans that had been made by the school districts of Pennsylvania.

> Act 482, July 1, H. 1238 validates temporary debts incurred under Section 508 of the School Laws, notwithstanding that the certificates of indebtedness or other obligations were not issued under the seal of the district, or were not properly attested by the president and secretary of the school board, or the motion to incur such indebtedness did not receive the affirmative vote of two-thirds of the members of the board of school directors, or the school district had not provided for the payment of the loan from its current revenue; provided that the auditors' report shows that the proceeds of such certificates of indebtedness or obligations were signed by at least two officers of the school board; and the amount of the indebtedness of such school district, including such debt or money borrowed, did not constitute two per centum of the total valuation of taxable property of such school district for school purposes, and that in all other respects the requirements of Section 508 were met.[3]

All payments made by the school boards from school funds are made by "orders" drawn on the proper fund. The statutes

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[1] Purdon's Pennsylvania Statutes, Title 24 Education, chap. 1, sec. 441.

[2] Lester K. Ade, A Digest of New Legislation on Education, pp. 7-8. Harrisburg: Commonwealth of Pennsylvania, Department of Public Instruction, 1937.

[3] Ibid., p. 16.

further provide that "no school order shall be authorized, or signed by the president or secretary of any board of school directors, unless there are sufficient funds in the treasury of the district to pay the same, and no school order shall be made payable at any time in the future, or draw interest."[1]

Rhode Island.--Short-term financing is sometimes necessary because of a lack of co-ordination between budget, or fiscal years, and tax collection years. A fiscal year may often begin on January first, while taxes for the same year are not payable for several months later. The expenses of operation for the intervening period must be paid from unexpended balances or from other revenues.

The statutes of the State of Rhode Island make provision for such conditions. During the interval between the close of the town fiscal year and the making of the annual appropriations, the school committee may use the unexpended balance remaining in the treasury from the school appropriation of the expired fiscal year, and "for each month a sum of money not exceeding one-twelfth of the amount appropriated in the preceding year for the support of public schools."[2] The town treasurer must pay the orders drawn by the school committee from any funds not otherwise appropriated.

South Carolina.--The County Treasurer and the County Supervisors in the State of South Carolina are authorized and required upon the application of the County Board of Education, to borrow from time to time, the sums of money necessary to pay the school claims of the county. The amount of money borrowed may not exceed 75 per cent of the amount reported available by the County

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[1]Purdon's Pennsylvania Statutes, Title 24 Education, chap. 1, sec. 481.

[2]Laws of Rhode Island, 1934, chap. 70, sec. 29.

Auditor plus 50 per cent of the estimated receipts from the state. An interest rate not exceeding 7 per cent may be paid on the funds borrowed. The current taxes are pledged toward the payment of both the principal and the interest on the loans. Provision is made for an interest rate not exceeding 8 per cent in Dorchester County.[1]

Authority is also granted county boards of education to set up a reserve fund in order to place schools on a cash basis. This is done by setting aside from the school funds "an amount annually of not exceeding ten per cent of such funds, for so many years as may be necessary to create a sufficient fund."[2] Loans are made to the districts from this fund without interest for the payment of teachers' claims, but the loans must be repaid annually from the taxes collected for school purposes.

South Dakota.--Short-term financing is achieved by the statutes of the State of South Dakota through the use of regular school warrants. The clerk issues the warrants for the payment of money for the purposes legally ordered by the board, and the treasurer pays all warrants properly drawn and signed as long as there are funds on hand. When there are no funds on hand, he endorses on the warrant "presented for payment this_____day of____ 19__, and not paid for want of funds," or if he can pay only a part of it, he makes such a payment and adds "balance not paid for want of funds."[3] Interest is paid at the rate of 6 per cent.

It is the duty of the treasurer to notify the holders of warrants by mail when there is money available and the interest

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[1] Code of Laws of South Carolina, 1932, sec. 5427.

[2] Ibid., sec. 5428.

[3] Compiled Laws of South Dakota, 1929, sec. 7476.

ceases ten days after this notice. It is mandatory upon the treasurer to call warrants immediately when funds are available. A special and separate tax may be levied to pay the interest accumulating on outstanding warrants.[1]

The reports of the State Superintendent of South Dakota indicate that considerable use is made of warrants. Over a period of forty-nine years (1890 to 1938 inclusive) the warrants outstanding at the end of the year averaged approximately 18 per cent of the total expenditures of the school districts.

Tennessee.--The statutes of the State of Tennessee authorize the Quarterly County Court to borrow money on short-term notes to pay teachers' salaries and other necessary operating expenses of the public schools until the county taxes for the previous year are collected and the state apportionments of school funds for the current year are received. The rate of interest on such notes cannot be in excess of 6 per cent. Borrowing is limited to the balance due the items of the budget for the scholastic year which it covers.

The notes must be repaid by the county trustee from funds collected for school purposes. The funds must be used for the definite purpose for which they are borrowed. No money can be borrowed for high school purposes and repaid from elementary school funds, and no money can be borrowed for elementary school purposes and repaid from high school funds. The issuance of the short-term notes may be made at either a regular or special session of the Quarterly Court. No loan may mature later than July first following the date upon which it was made.[2] During a ten year period (1929-1938) an average of 5.37 per cent of the total receipts were

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[1] Session Laws of South Dakota, 1933, chap. 160.

[2] Michie's Tennessee Code, 1938, secs. 2522-2524.

from such short-term loans.

Texas.--Special legislation was enacted in the State of Texas in 1933 to enable the schools to meet an emergency financial condition. It is evident that the legislature considered the situation as an emergency one, for the Act authorizing the issuance of interest-bearing warrants was effective only from May 31, 1933 to August 31, 1935.[1] The main provisions of the Act were as follows:

1. The school trustees had authority to issue interest-bearing warrants at a rate not exceeding 4 per cent, for the purpose of paying salaries of all persons employed in the public schools.

2. Warrants could be issued to the extent of 80 per cent of the estimated proceeds of the local maintenance tax, plus not more than 60 per cent of the per capita school apportionment from the State of Texas.

3. The warrants were paid numerically when the funds became available from the tax levy and the state apportionment.

Utah.--The short-term borrowing power of boards of education in the State of Utah is very liberal. Authority is granted by the statutes to borrow for the maintenance of schools within the district not in excess of the taxes for the current school year. This is equivalent to authority to borrow 100 per cent of the current tax levy. Negotiable notes or bonds are issued as evidence of the loan. Borrowing may also be done for the purpose of purchasing school sites and erecting buildings to the extent of any tax levied for that purpose.

None of the indebtedness referred to above may be in excess

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[1] Vernon's Annotated Statutes, Texas, Vol. 8, chap. 19, art. 2905a.

of the school taxes for the current year unless the proposition has been submitted to and receives a majority vote of the qualified electors of the district. A qualified elector is one who has paid a property tax in the district within the twelve calendar months preceding the election.[1] Negotiable notes or bonds issued as a result of such an election must mature within five years and bear interest at a rate agreed upon. A special tax is levied to pay the principal and interest as they become due.

Several opinions of the Attorney General of Utah clarify the status of these notes and bonds. The first of these opinions dated April 9, 1930, states that "the board may borrow money on anticipated revenue, provided it is not in excess of revenue for the current year, and may also borrow money on taxes for the current year after they become delinquent.[2] An opinion relative to tax anticipation notes on September 22, 1934 said:

> It is illegal for a board of education to issue tax anticipation notes in excess of the bona fide anticipated revenues which will be received from current taxes. Any proposal to borrow funds beyond this limit must be submitted to the people in a bond election.[3]

This same principle was upheld in another opinion relative to tax anticipation notes for buildings rendered April 24, 1937, which stated that "boards of education cannot issue negotiable notes or bonds in excess of the taxes for the current school year, without an election for the purpose of purchasing school sites or constructing school buildings."[4] In answer to the question as to whether "taxes for the current year" means taxes from local levy or local and state levies, the Attorney General refers to a Utah

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[1] Revised Statutes of Utah, 1933, chap. 13, sec. 75-13-1.

[2] School Laws of the State of Utah, 1937, p. 77.

[3] Ibid. [4] Ibid.

Supreme Court ruling that "both local and state taxes are included."[1]

Vermont.--The statutes of the State of Vermont contain provisions which are interpreted as granting implied power to school boards to borrow money for temporary purposes and to issue interest-bearing orders. Section 4173 enumerating the general duties of school directors says in part that:

> The board may receive and use in behalf of the town school districts . . . . money . . . . for school purposes as the interests of efficiency and convenience may warrant. . . . . The board shall examine claims against the town district for school expenses and draw orders for such as shall be allowed by it, payable to the party entitled thereto. Such orders shall state definitely the purpose for which they are drawn. The board shall make regulations not inconsistent with law as to carrying the powers granted it into effect.[2]

The Attorney General of Vermont has interpreted the above provision in an opinion dated December 26, 1933, as granting authority to school directors to continue to draw orders although "there are insufficient funds on hand to pay the orders at the time they are drawn and such orders carry interest from the time the demand is made for payment thereof."[3]

School directors have the power to borrow money according to an opinion relative to the same law issued by the Attorney General on December 1, 1932, which states that "the board of school directors have the management of the schools of its district and may borrow sufficient money in order to supply a temporary need in respect to expenses for which a tax might legally be assessed under vote."[4] A second opinion regarding borrowing money, issued

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[1] Muir v. Murray City, 55 U. 368, 186 Pac. 433.

[2] Public Laws of Vermont, 1933, chap. 177, sec. 4173.

[3] Public Laws of the State of Vermont Relating to Education, 1935, p. 66.

[4] Ibid., p. 67.

December 26, 1933, reads as follows:

> It is my opinion that each town district shall provide the necessary money for the support of schools therein. As stated in my opinion to you under date of January 7, 1932, I believe that the school directors are authorized by law to borrow money from time to time as the necessities of the town district require. The school directors have authority to draw orders for the payment of town district debts and thereby make the town district liable under such orders, though to their knowledge the treasury is empty. Such orders, on due presentation would bear interest at the legal rate. It would be a misfortune if they should be held unauthorized to borrow money to pay current expenses and issue the order to the lender instead of the creditor and thereby secure to the town district the lower rate of interest which may be always obtained. The school directors in my opinion may pledge the credit of the town district for money borrowed to meet its current bills without a vote from the town district.[1]

Virginia.--Authority is granted to the school board of a county or a city in Virginia to make temporary loans when necessary. The amount that may be borrowed is limited to 50 per cent of the tax levy for the current year and 50 per cent of the cash appropriation made to the district for the preceding year.[2] Notes or negotiable bonds bearing 6 per cent are given as evidence of the money borrowed. These obligations must be repaid within a year and no additional loans can be made until all prior temporary loans have been paid.

School boards in Virginia cannot expend or contract to expend in any one year, for any sums in excess of the income for the fiscal year, without the consent of the tax levying body. Persons violating such provision will be deemed guilty of malfeasance in office. The reports of the State Superintendent of Virginia indicate that over an eighteen year period (1920-1937) an average of approximately 5 per cent of the total receipts were from such short-term loans.

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[1] Ibid.

[2] Virginia Code, 1936, chap. 33, sec. 675.

Washington.--The statutes of the State of Washington have several provisions for meeting financial emergencies that arise in the schools, but the regular school warrant is used most extensively. The treasurer must register all warrants presented to him in a special book provided for that purpose. The register must show the following data:

1. The date issued, number of warrant, to whom issued, amount and purpose.

2. The data registered, date advertised, interest if any accruing on said warrant, total as redeemed, date redeemed, and to whom paid.

No endorsement is necessary on a warrant if there is money on hand to pay it. Should there be no money to the credit of the fund on which it is registered, the treasurer shall endorse thereon "this warrant bears interest at ___ per cent per annum from _____ until called for payment. _____County Treasurer. By _____Deputy."[1] It is the duty of the treasurer to pay warrants in the order of their presentation. Likewise, he must advertise at least quarterly the warrants that he is prepared to pay. The interest rate cannot exceed 8 per cent and it ceases after notice has been given that there are funds on hand for the payment of the warrants.

There are on record numerous opinions of the Attorney General of Washington which further clarify the use of warrants in that state. One of these states that:

> There appears to be no time limit within which warrants must be presented for payment, after call. The only effect that a treasurer's call for a warrant has is to stop the running of interest.[2]

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[1] Remington's Revised Statutes, Washington, 1932, sec. 4867.

[2] Code of Public Instruction, Washington, 1923, p. 381.

This same principle was upheld in the opinion which stated that "since there is no statutory authority for the cancellation of school warrants which have been drawn and have remained uncalled for, they must be paid at any time they may be presented to the county treasurer."[1] Should the holder of a warrant sell it at a discount, he is the loser according to another opinion which says "a teacher who feels forced to discount his warrant cannot collect money from a district to make good the amount of his discount, nor can the board, though willing, legally pay out money for such discount."[2] That the treasurer is responsible for payment of warrants if he has funds on hand when they are presented is revealed in another opinion that "a county treasurer who endorsed warrants presented as 'not paid for want of funds' when he had in his possession ample funds of the district for their payment is liable for loss to the district and his sureties are liable likewise on his bond."[3]

The statutes of the State of Washington make provision for meeting practically any emergency that might come up in the schools by granting authority to issue "emergency warrants."

> Upon the happening of any emergency caused by the destruction or impairment of any school property necessary for the maintenance of school, or to provide school facilities for an enrollment not contemplated in the budget, or by epidemic, or by the entering by a court of competent jurisdiction of judgment for damages against the district, or by the enactment of legislation since the adoption of said budget requiring expenditures not contemplated therein, the board of directors, upon the adoption by the unanimous vote of the directors present at any meeting the time and place of which all the directors shall have had reasonable notice of a resolution stating the facts constituting the said emergency and provided that there is sufficient unappropriated surplus to the credit of the district to provide for such emergency, may authorize the issuance of warrants against the general fund to meet said emergency.[4]

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[1] Ibid.

[2] Ibid.

[3] Ibid.

[4] Ibid., sec. 829.

Copies of the resolution are filed with the county auditors and the county treasurer. The auditor must issue the emergency warrants as ordered by the board and the treasurer must pay them as long as funds are available. Thereafter, they are registered and draw interest in the same manner as provided for regular warrants. A tax must be levied to reimburse the general fund and pay for all warrants so issued.

School boards in Washington are limited in their spending to the funds that will be available for the fiscal year. The statutes definitely state that "it shall be unlawful for any board of directors to contract indebtedness against their district in any one year in any sum or sums exceeding the aggregate of the amount due to said district during the year from state funds, the amount of school district tax levied for the year and the estimated receipts from other sources, unless said indebtedness be authorized by a vote of the electors of said district."[1]

In his interpretation of the above statute in an opinion dated January 21, 1921, the Attorney General said that:

> Warrants can not be issued or registered in excess of the current revenues. The liability of the auditor for payment in such cases would probably depend upon whether or not he had actual knowledge of the financial condition of the district.[2]

The tenor of another opinion is in accord with the same principle when the Attorney General ruled that "each year must stand on its own footing and warrants issued in one year in excess of the revenues for that year are void, and are not a charge against the current revenues for the following year."[3] The adherence to the statute is so strictly carried out that even the

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[1] Remington's Revised Statutes, Washington, 1932, sec. 4784.

[2] Code of Public Instruction, Washington, 1923, p. 348.

[3] Ibid.

"contract of a school district with a school teacher to teach for a period of eight months is void when the limit of indebtedness of the district has been reached and exceeded."[1]

The reports of the State Department of Education indicate that considerable use is made of warrants in financing the schools of Washington. Over a period of forty-six years (1891-1936) the warrants outstanding at the end of the year averaged 31.17 per cent of the total and 43.35 per cent of the current expenditures for each year.

West Virginia.--The county sheriff receives, collects, and disburses all tax levies and other school money for the school districts in West Virginia. He can pay out money only upon an order of the board properly signed by the president and countersigned by the secretary. The orders must "specify the amount to be paid, the purpose for which paid, and the fund to which it shall be charged."[2]

When orders are presented to the sheriff and there are no funds on hand to pay them, he endorses or writes on them "presented for payment" with the proper date and signs his name.[3] Interest is paid on such warrants at the legal rate for the State of West Virginia. Should the sheriff fail to pay a warrant when it is due and there are funds on hand for that purpose, he and his sureties can be held liable for the amount of the warrant and the legal interest, plus 10 per cent of the amount as damages.

Wisconsin.--Temporary borrowing by school boards is authorized by the statutes of the State of Wisconsin for the purpose of meeting the immediate expenses of maintaining the schools. The

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[1]Wolf v. School District No. 2, 58 Wash. 212.

[2]West Virginia Code, 1937, sec. 1858.

[3]Ibid., sec. 1859.

amount borrowed must not be in excess of 50 per cent of the estimated receipts as certified by the State Superintendent of Schools and the local school clerk. The loans cannot extend beyond the first day of May following their issuance. The borrowing may be done at any lawful board meeting upon their own motion regularly made and recorded. Lawfully authorized and drawn school orders are given as security for the loan. When these orders are paid, they are receipted and filed by the treasurer of the board.[1]

In clarifying what constitutes the estimated receipts, the Attorney General has said in an opinion that "under estimated receipts for school year as certified by State Superintendent and local school clerk do not include district funds tied up in closed bank."[2]

The reports of the State Superintendent of Public Instruction indicate that considerable more use is made of this provision by school districts under county superintendents than in those under city superintendents. Short-term borrowing by districts under the county superintendents averages approximately 14 per cent of the total receipts and in districts under city superintendents the average is only about 3 per cent.

Wyoming.--Short-term financing in the schools of the State of Wyoming is achieved by the use of regular warrants endorsed "not paid for want of funds," when there is no money on hand to pay them.[3] Such warrants are issued directly to the debtors of the district and bear interest at 6 per cent from the date of registration until paid. Protection is afforded the school district and the warrant holders by the Constitution of the State of Wyoming

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[1] Wisconsin Statutes, 1937, sec. 67.12.

[2] Laws of Wisconsin Relating to Public Education, 1938, p. 952.

[3] Wyoming Revised Statutes, 1931, sec. 58-111.

which provides that no debt may be incurred "in excess of the taxes for the current year," unless such debt is approved by a vote of the people.

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[1] Constitution of the State of Wyoming, Article XVI, sec. 4.

CHAPTER III

JUDICIAL DECISIONS PERTAINING TO IMPORTANT PROCEDURES IN SHORT-TERM BORROWING

Power to Incur Indebtedness and Make Expenditure

Power to borrow.--The courts of the United State have often been called upon to interpret the statutes regulating short-term financial operations of school officials. A general principle apparent in the interpretations dealing with this topic is that school districts are quasi-corporations and have no inherent rights to borrow money or negotiate loans, but must derive such rights from the statutes and comply therewith.[1] Whenever the statutes do not give this power to the school district, notes or warrants given by them for borrowed money cannot be enforced against the district.[2]

One of the earliest cases on record dealing with short-term borrowing is found in the case of Clarke v. School District No. 7, Rhode Island, in the year 1855. The school district in question had authority to contract and incur indebtedness, but had no specific power to borrow money. They had, however, contracted debts to a considerable amount for building a school house, for other school purposes, and for expenses incurred in certain actions and suits in which the district was concerned. These debts, it was concluded, the district was in law bound to pay. Instead of

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[1]Hard v. Depaoli, 41 P. 2d, 1054, 56 Nev. 19; Hotchkiss v. Plunkett, 60 Conn. 230, 22 Atl. 535.

[2]Arkansas National Bank v. School District No. 99, Washington County, 238 S.W. 630, 152 Ark 507.

levying a tax on the ratable property of the district to raise the money for the payment, the district board borrowed the money from individuals and gave them promissory notes. The money realized from the notes was used to pay the obligations. The question was raised as to whether or not these promissory notes were valid and binding upon the district or were void, and whether a school district had power to raise money by borrowing for the payment of its debts, lawfully contracted, and to give its promissory notes therefor. In deciding this case the Supreme Court of Rhode Island upheld the action of the school authorities. "A school district corporation may give and bind itself by a negotiable promissory note or bill of exchange for any debts contracted in the course of its legitimate business for any expenses incurred in any manner or thing which it is authorized to do, or any matter which is not foreign to the purposes of its creation."[1]

The same principle was upheld by the Minnesota State Supreme Court in 1865 where the statutes granted contractual power to the school district but gave no specific authority to issue short-term notes. "Promissory notes made by trustees of school districts as evidences of indebtedness are valid between the parties, as a contract for forbearance and a promise to pay the amount specified, which will bind the successors of the original trustees, and upon which suit may be brought against the district."[2]

It is to be noted, however, that a promissory note executed by the trustees of a school district, as such, becomes a note of the district only when the note was given for an indebtedness that the trustees were authorized to contract,[3] for neither legislature

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[1]Clarke v. School District No. 7, 3 R.I. 199.

[2]Robbins v. School District No. 1 of Anoka County, 10 Minn. 340 (Gil. 268).

[3]School District No. 7 v. Thompson, 5 Minn. 280 (Gil. 221).

nor electors and taxpayers may validate any indebtedness of a school district which it had no authority to make and which is prohibited by the state constitution.[1]

A significant feature about short-term borrowing is that generally the school board has the power to borrow money without getting any further permission from the people in the district. Long-term bonds are usually first approved by a vote of the people before the school board has any authority to issue them. Short-term borrowing has thus been regarded as a method of meeting financial emergencies that may come up in the operation of the schools and many of the statutes are so devised.

Revenue against which borrowing is done.--The power of a board to borrow for a short-term has been subject to considerable judicial interpretation as to whether or not such borrowing could be against sums other than current revenues. The Supreme Court of Oklahoma held that liability incurred by school districts in excess of current revenue in hand or legally levied is void unless authorized by election,[2] and that school districts cannot become indebted in an amount exceeding, in any year, the income and revenue provided for such year without assent of the voters.[3] These decisions were based upon the statutory provision that warrants may be "issued to the amount of the estimate made and approved by the excise board for the current fiscal year."[4] In North Carolina, however, the statutory power given to the taxing district to borrow money is not limited to short-term loans in anticipation of current

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[1]Trepp v. Independent School District of Pocahontas, 213 Iowa 944.

[2]Protest of Carter Oil Co., 296 P. 485, 148 Okla. 1.

[3]Board of Education Town of Terral v. Challey, 153 Okla. 273.

[4]Oklahoma Statutes, 1938, sec. 5952.

revenue, as distinguished from long-term bond issues, so as to render applicable the limitation that the amount so borrowed in any one year cannot exceed the amount which may be raised by the annual tax. It was held that the words to "borrow money" implied the power to raise money for the public use on the pledge of public credit, and such power could be used to meet either present or anticipated expenses and liabilities. This right gives a municipal corporation the power to create indebtedness and procure for its payment funds from others which may be paid at a future date.[1] This same principle was upheld by the Supreme Court of Alabama in Heustess v. Hearin when it was held that the county board of education which had exhausted its funds for the current year, had the power to borrow money to pay salaries of teachers and current expenses by pledging the revenues of the succeeding year.[2]

It is apparent that the interpretations of borrowing in anticipation of future revenues beyond the current year show considerable variation in the states because of the nature of the statutory provisions. For instance, in the State of Oklahoma the Supreme Court held invalid the statute enacted in 1927 which was designed to confer power on school boards during one fiscal year, to contract liability against funds provided for subsequent fiscal years for services then to be performed.[3] The Supreme Court of Kentucky also ruled that a school board was without power to borrow money against the tax levy of 1921 to meet the expenses necessary for increasing the salaries of teachers and other employees

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[1]Jones v. Board of Education of Guilford County, 117 S.E. 37, 185 N.C., 303.

[2]Heustess v. Hearin, 104 So. 273, 213 Ala. 106.

[3]School District No. 76, Creek County v. Bath, 120 Okla. 204.

in 1920.[1] This was because the statutes of the State of Kentucky governing short-term borrowing provide that:

> Any board of education shall have the power and authority to borrow money on the credit of the board and to issue negotiable notes in anticipation of revenues from school taxes for the fiscal year in which the money is borrowed. . . . . In all cases in which such loans are made, they shall be repaid within the fiscal year in which they are borrowed.[2]

The Appelate Court of Illinois was liberal in its interpretation of the power of the school district of Decatur, Illinois, which is organized under a special Act of the legislature, when in 1917 it was held that the district had power to borrow money for general school purposes including teachers' salaries, although such salaries were not specifically mentioned in the Act.[3] This same implication of authority is noted in the Louisiana case of Watkins v. Quachita Parish School Board in 1931 when the Supreme Court held that "where a special tax is voted to establish a junior college, the school board has implied power to borrow against the tax and pledge it to obtain funds."[4]

A strict adherence to the powers of boards to borrow is noted in an old case in Dakota Territory, dating back to 1889. The statutes at that time restricted the amount of obligations that a district might incur in any one year to 1½ per cent of the value of the taxable property in the district. The Supreme Court of the Territory declared invalid warrants made payable immediately

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[1]Board of Education of the City of Newport v. Scott, 224 S.W. 680, 189 Ky. 225.

[2]Carroll's Kentucky Statutes, 1934, sec. 4399-44.

[3]National Bank of Decatur v. Board of Education of Decatur School District, 205 Ill. App. 57.

[4]Watkins v. Quachita Parish School Board, 136 So. 591, 173 La. 259.

and exceeding the 1½ per cent limitation.[1]

When is indebtedness incurred.--The power of boards of education to contract indebtedness is usually not specifically limited by statute. The Supreme Court of Iowa ruled that warrants issued by a school district for current expenses in anticipation of taxes in the course of collection and certain to be collected did not constitute a "debt" within the constitutional limitation.[2] A decision rendered by the Supreme Court of Wisconsin held that "temporary loans by a school district in anticipation of revenues constitute 'indebtedness' within constitutional limitation."[3]

The important principle involved in these two cases is the "purpose" for which the warrants were issued. If a warrant is issued in payment of a contractual obligation already entered into, as in the Iowa case, it merely changes the form of the obligation. It does not create a new debt. However, if the loan is not used to pay off a contractual obligation already existing, it would create a debt. A case decided by the Supreme Court of North Dakota indicated that warrants issued in anticipation of tax levies already made did not augment existing "indebtedness" of a school district within the meaning of the constitutional limitation of a school district's indebtedness.[4] In the case of Waller v. Georgetown, Kentucky, Board of Education in 1925, this matter was clearly defined in the following ruling.

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[1]Farmers and Merchants National Bank v. School District No. 53, 6 Dak. 255, 42 N.W. 767.

[2]Trindle v. Consolidated Independent School District of Van Meter, 202 N.W. 377, 200 Iowa, 370.

[3]Riesen v. School District No. 4 of Village of Shorewood, 212 N.W. 783, 192 Wis. 283.

[4]Jones v. Brightwood Independent School District No. 1, 247 N.W. 884, 63 N.D. 275.

"The investing of the board of education with the power to borrow money in anticipation of taxes, providing the amount so borrowed shall not exceed 50% of anticipated revenue for fiscal half year in which borrowed, constitutes a limitation on the actual borrowing of money, and not on the power to incur an indebtedness or obligation."[1]

This brings to the foreground a matter of contention in school operation, namely, when is indebtedness created? Is it at the time contracts are made or after services have been performed? The most clear-cut decision on record in this matter was rendered by the Supreme Court of Oklahoma in 1932. "Indebtedness of a school district is created at the time teacher's contract is executed and not when services are performed thereunder."[2]

The above interpretation is in agreement with an earlier case on record in Wyoming which holds to the same general principle that a debt is incurred when the purchase or contract is made. This case was decided by the Supreme Court of Wyoming in 1905. "The issuance of a warrant by a school district in payment for property purchased is not the incurring of a debt but the debt is incurred at the date of the purchase."[3]

Remedial legislation.--The state legislatures are generally liberal in passing laws validating outstanding obligations of school districts. On numerous occasions warrants and bonds are issued and a subsequent drop in assessed valuation has the effect of raising the amount of indebtedness above the statutory

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[1]Waller v. Georgetown Board of Education, 273 S.W. 498, 209 Ky. 726.

[2]Board of Education of Town of Terral v. Challey, 153 Okla. 273.

[3]School District No. 3, Carbon County v. Western Tube Co., 80 P. 155, 13 Wyo. 304.

limitations on indebtedness. In order to assure the legality of the outstanding obligations, curative or validating legislation is passed to protect the holders of warrants and bonds as well as the financial credit of the district.

The school system of Peoria, Illinois, sought an interpretation of its borrowing power, since it is organized under a special Act of the Illinois Legislature. In the case of Gray v. Board of School Inspectors of Peoria in 1907, the Supreme Court of Illinois rendered a decision favorable to the board when it held that "school trustees organized by a special act of the Legislature who have power to determine the amount of taxes required and have the same levied by the city council, have authority, by virtue of section 2 act of May 11, 1901, providing that it shall be lawful for the authorities of a school district to provide a fund to meet ordinary and necessary expenses by issuing and disposing of warrants drawn in anticipation of taxes to borrow money in anticipation of the collection of such taxes."[1]

A special act was passed in the State of Louisiana in which parish school boards were given power to fund indebtedness by the issuance of certificates of indebtedness. In a case testing the validity of granting such power to the board, it was decided that the act was not void with respect to incurring a debt without an election by the voters and consequently it was not violative of the constitution.[2] In a similar case the Supreme Court of North Carolina held valid the power granted to boards of education by a special act of the legislature to fund indebtedness created for necessary expenses of conducting a six months school,

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[1]Gray v. Board of School Inspectors of Peoria, 135 Ill. App. 494, 83 N.E. 95, 231 Ill. 63.

[2]Assumption Parish School Board v. Bank of Napoleonville, 168 La. 1118.

without approval of the electorate as applied to indebtedness for the erection of school buildings.[1]

Negotiability and Transfer of Warrants

Commercial status of warrants.--School warrants come under that class of commercial paper known as non-negotiable instruments, meaning that they are obligations payable to a definite individual or corporation.[2] By negotiable instruments are meant that class of contracts or obligations in writing, which by the law merchant, commercial usage, and now by statute, may be assigned or transferred from person to person independent of the rules of the common law regarding assignments generally. This negotiable quality transfers the debt from the party to whom it was originally owed to the holder, when the instrument is properly endorsed, and enables the holder of such instrument to sue the maker and all other parties to such instrument.[3]

In clarifying the status of school warrants as commercial paper, Edwards declares that:

> . . . . are not negotiable instruments, nor do they carry with them any of the privileges of negotiable paper except to pass by delivery upon endorsement. The purchaser of such warrants takes them subject to all legal and equitable defenses which existed as to them in the hands of the original payee. There can be no innocent purchaser for value.[4]

The purchaser of commercial paper executed by boards of education must see at his peril that the board's officers have

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[1]Lovelace v. Pratt, 122 S.E. 661, 187 N.C. 686.

[2]Warren v. Scott, 32 Iowa 22.

[3]Walker v. Ocean Bank, 19 Ind. 247.

[4]Newton Edwards, The Courts and the Public School, p. 270. Chicago: The University of Chicago Press, 1933.

authority to bind the board,[1] since a warrant for the payment of school funds is not a negotiable instrument, and a third person can acquire no greater rights under it than the original holder had.[2] Warrants issued by an agency of the government are subject to defense of failure of consideration, even in the hands of a good faith purchaser for value before maturity. In the case of Jenkins Common School District No. 17 v. Guaranty Bond State Bank et al. it appears that a certain vendor sold sanitary supplies to the school district, received a warrant in payment, cashed it at the depository bank, but he did not deliver the merchandise involved in the transaction. The school district had notified their depository not to cash the warrant, but they did. In deciding this case in 1937, the Supreme Court of Texas said in part:

> Since the warrant was non-negotiable, the school district had the right to revoke its order of payment prior to payment of the warrant by the county depository, and if, notwithstanding the notice of revocation, the county depository paid the voucher and there was in fact a failure of consideration, the school district should be allowed to recover the funds of the district so unlawfully used in paying said voucher.[3]

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[1]First National Bank v. Board of Public Instruction for Dade County, 145 So. 203, 107 Fla. 525.

[2]Shakespeare v. Smith, 77 Cal. 638, 20 Pac. 294; Dubard v. Nevin, 10 S.W. 2d 875, 178 Ark. 436; Davis v. Steuben School Township of Warren County, 50 N.E. 1, 19 Ind. App. 694; Wright v. Kinney, 31 S.E. 874, 123 N.C. 618; Tattersfield v. Independent School District of Flandreau, 245 N.W. 51, 60 S.D. 455; Lincoln National Bank and Trust Company v. School District No. 79 of Boyd County, 274 N.W. 433, 124 Neb. 538; Woodworth v. School District No. 2 of Stevens County, 175 P. 231, 103 Wash. 677; First National Bank v. Consolidated School District No. 28 of Jackson County, 238 N.W. 634, 184 Minn. 635; Kellog v. School District No. 10 of Comanche County, 74 P. 110, 13 Okla. 285; Goose River Bank v. Willow Lake School Township, 1 N.D. 26, 44 N.W. 1002, 26 Am. St. Rep. 605; Petters v. School District No. 5, Alabany County, 260 P. 678, 37 Wyo. 237.

[3]Jenkins Common School District No. 17 v. Guaranty Bond State Bank et al., 103 S.W. 2d 394.

If the services have been rendered or merchandise received, the consideration involved should be paid. In 1887, the courts of Texas rendered a decision which indicated that recovery can be had on school claims against the county by persons to whom teachers have assigned them as well as the teachers themselves. The purpose of the statutes being not to provide bounties, but to secure rights growing out of services rendered and it is a matter of indifference to the state in whose hands the claims may be.[1]

Warrants are prima facie evidence of indebtedness.--That the purchasers of warrants have some rights even though they are not negotiable was brought out in a decision rendered by the Illinois Appellate Court in 1935 in Hart v. Board of Education of the City of Chicago where it was said that "although payable to bearer, tax anticipation warrants issued by the board of education of the City of Chicago are not negotiable in the sense that a person who steals them can pass to an innocent purchaser for value, a good title to them."[2]

The matter of there being a legal consideration involved has great weight in the courts. When the evidence shows that there has been no consideration for value involved but an attempt to defraud has been made, the courts will not sustain payment of the warrants.[3] In the case of Davis v. Steuben School Township of Warren County, the Indiana Appelate Court stated in part that "a school township is not liable for an order in the hands of an innocent holder, which was issued by its trustee to the payee without

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[1]Caldwell County v. Crocket, 68 Tex. 321, 4 S.W. 607.

[2]George E. Hart, Inc. v. Board of Education of the City of Chicago, 278 Ill. App. 132.

[3]First National Bank v. Whisenhunt, 127 S.W. 968, 94 Ark. 583.

any consideration in the pursuance of an agreement between the trustee and the payee to defraud the township.[1]

Another case which sustains the principle that there must be a consideration involved is found in a decision rendered by the Supreme Court of North Dakota in the case of the Osage Farmers National Bank v. Van Hook Special School District No. 8 in which the bank was upheld as the owner of seven warrants.

> Five of the warrants were indorsed in blank by the payees named therein. Two of them were not indorsed. This, however, is not material. An indorsement was not necessary to transfer title to the warrants. The evidence clearly shows that the warrants came into the possession of the plaintiff in this action from the former holder who paid a valuable consideration for them and that the plaintiff in turn paid a valuable consideration. Transfer of the warrants without indorsement vested in the transferee such title as the transferor had.[2]

It appears then that as long as the holder has secured the warrants by giving a consideration, he is a bona fide holder and can claim all the rights existing between the original parties.[3] It is interesting to note that the Supreme Court of the United States was called upon to clarify this issue as early as the year 1873 for the schools of Missouri. The decision stated that "in Missouri, school district warrants have not the quality of negotiable paper, and are subject, in the hands of a bona fide transferee to all equities existing between the original parties.[4]

In the case of the Home State Bank v. School District No. 17, the Supreme Court of Kansas also gave a decision in accord

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[1]Davis v. Steuben School Township of Warren County, 50 N. E. 1, 19 Ind. App. 694.

[2]Osage Farmers National Bank v. Van Hook Special School District No. 8, 263 N.W. 162, 66 N.D. 196.

[3]State v. Melcher, 127 N.W. 241, 87 Neb. 359.

[4]School District Township v. Lombard, Fed. Cas. No. 12, 478 (2 Dill. 493).

with this principle by a ruling which said the "assignee of the school warrant becomes the owner of whatever claim the original holder had against the district for the indebtedness evidenced by the warrant."[1] Again in Capital Bank v. School District No. 53, we find that "a warrant issued by a school district, though in the hands of a bona fide purchaser creates no greater liability than the demand represents, but it is subject to the same defenses."[2] This is also in accord with a decision rendered in the litigation between the Goose River Bank v. Willow Lake School Township wherein the court stated in part that "warrants for the payment of a teacher's services are not negotiable so as to cut off defenses, and an assignee cannot recover thereon as being a bona fide purchaser."[3]

There are numerous cases on record where the holders have claimed that school warrants are the same as promissory notes or bills of exchange and consequently they should be classed as negotiable paper. The courts are in agreement that warrants do not posses this quality. Cases which clarify this point are Gray v. Board of School Inspectors of Peoria in which the court said warrants "issued by school district authorities for money borrowed are not negotiable so as to entitle the holder thereof to protection under the laws relating to bills and notes,"[4] and also Waverly Independent School District No. 1 v. Young, in which the

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[1] Home State Bank v. School District No. 17, 169 P. 202, 102 Kan. 98.

[2] Capital Bank v. School District No. 53, Ind. 479, 48 N. W. 363.

[3] Goose River Bank v. Willow Lake School Township, 1 N.D. 26, 44 N.W. 1002, 26 Am. St. Pet. 605.

[4] Gray v. Board of School Inspectors of Peoria, 135 Ill. App. 494, 83 N.E. 95, 231 Ill. 63.

Supreme Court of South Dakota stated in an opinion rendered in 1934 that "school warrants are not negotiable promissory notes or bills of exchange, but things in action and non-negotiable written contracts for payment of money."[1] The same general principle was followed in the decision of the Supreme Court of Pennsylvania which stated in Livingston v. School Board of South Middleton Township that "orders drawn by the president of a board of school directors on the treasurer of a school district are not negotiable bills or orders, but mere warrants for the payment of money to the person to whom they are issued, to be disbursed by the treasurer under authority of law."[2]

It is not possible to make a warrant a negotiable instrument by writing or endorsing thereon "good without endorsement" and it was also held that such endorsement was not sufficient to transfer the title to another than the original payee.[3] Warrants issued by a county board of education containing no promise to pay but merely an acknowledgment of the indebtedness of the board were held to be not negotiable instruments.[4] Where a contractor who has built a school assigns the school district warrants, the assignee takes the warrants subject to the same defenses as existed against the contractor, and the assignee is not entitled to payment until satisfaction of subcontractor's and materialmen's right

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[1]Waverly Independent School District No. 1 v. Young, 253 N.W. 480, 62 S.D. 434.

[2]Livingston v. School Board of South Middleton Township, 15 Pa. Super. Ct. 358.

[3]Martinez v. Orleans Parish School Board, 172 So. 159, 186 La. 283.

[4]Kimmons v. Jefferson County Board of Education, 85 So. 774, 204 Ala. 384.

to payment has been fulfilled.[1] This same principle is upheld in the recent case of the First National Bank v. Murchison School District where in 1938 the Supreme Court of Texas said in its decision that the bank "which acquired the three school warrants, upon the closing and liquidation of bank to which they were originally issued, acquired the warrants, which were payable out of local maintenance tax collections, subject to all defenses arising from the original transaction in which the warrants were given, since the instruments were not negotiable."[2]

The foregoing opinions regarding the negotiability and transfer of warrants indicate that:

1. They are not negotiable instruments.

2. The purchaser of them takes them subject to all defenses which existed in the hands of the original payee.

3. Warrants are prima facie, but not conclusive evidence of legal claims.

Rights and Remedies of Holders

Warrants represent tax assignments in Illinois.--Holders of tax warrants issued by school districts in Illinois have little recourse in the courts, since the legal issuance discharges the obligation of the taxing body. Tax anticipation warrants, therefore, do not constitute any promise of payment, either expressed or implied, on the part of the taxing body issuing them and they constitute no obligation between the taxing body and the purchasers or holders of the warrants. The issuance of the warrant discharges the taxing body from all liability on account of the obligation

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[1]Baker Lumber Co. v. A. A. Clark Co., 178 P. 764, 53 Utah 336.

[2]First National Bank v. Murchison School District, 114 S. W. 2d 382.

for which it was drawn. When it is issued and accepted or sold, the transaction is closed on the part of the municipality, leaving no further obligation upon it, either absolute or contingent, whereby its debt may be increased. Thus, tax anticipation warrants in Illinois are not debts or contracts and do not represent direct legal obligations of the school district or any other municipality which issues them.[1]

The issuance of a warrant is in reality an assignment of funds and the holder thereof takes it at his own peril. A decision rendered by the Supreme Court of Illinois in 1938 in the case of People ex rel. Lindheimer v. The Huron and Orleans Building Corporation said in part that "tax anticipation warrants and interest thereon, are not liabilities of the board of education of the City of Chicago, but are mere assignments of taxes to be collected."[2]

Protection afforded warrant holders.--It is apparent that the holder of a warrant should take all the precaution necessary to ascertain its legality and the conditions pertinent to its issue if he expects to realize full value on it. The state constitutions and the acts of the legislatures have protected the school funds insofar as it was reasonably possible to do so, and when contractors, vendors, and other individuals deal with a board of education they know, or should know, that the authority of the board is limited and that it is not authorized to pledge its expected revenues for future years for the payment of current obligations. Therefore, when such contractors, vendors, or other

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[1]Berman v. Board of Education of City of Chicago, 360 Ill. 535; People ex rel Lindheimer v. The Huron and Orleans Bldg. Corp., 368 Ill. 469; Fuller v. Heath, 89 Ill. 296; City of Springfield v. Edwards, 84 Ill. 626; Coles County v. Goehring, 209 Ill. 142; People v. Mills Novelty Company, 357 Ill. 285.

[2]People ex rel. Lindheimer v. The Huron and Orleans Bldg. Corp. 368 Ill. 469.

individuals deliberately enter into a contract or agreement by which the future revenues of the board are attempted to be pledged for the payment of current expenses, they do so at their peril. They should know that they have neither moral nor legal right to expect such obligations to be paid from funds to be raised in the future. Such funds are provided for the current maintenance of the public free schools and for the benefit of and for the use of those who are entitled to receive the benefits of the school during the annual period for the maintenance of which the fund is collected. This is a protection which should be guaranteed to the future generations in our schools.

The rights of holders of warrants are thus confined to the particular tax levy against which they have been issued. An old case in Illinois, dating back to 1877, has been used as a reference in practically all the decisions since that time. In this early decision in the case of the City of Springfield v. Edwards, the court stated that:

> Appropriations may be made or warrants drawn upon the treasury in anticipation of taxes to be thereafter collected, provided the tax be actually levied at the time. Where a fund is provided to meet the same, the appropriation or warrant creates no new liability but one thing is simply exchanged for another.[1]

Warrant holders have burden of proof in court actions.--In court actions to recover on warrants of a school district, the burden of proof lies on the holder to show that their issuance was authorized and in good faith. It is also an established principle that the school district must receive the actual benefit covered by such warrant either in the form of money, services, or merchandise before the holder can recover on them. In 1879 the Missouri Appelate Court held that "one seeking to recover on a school

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[1]City of Springfield v. Edwards, 84 Ill. 626.

warrant has the burden of proving that its issuance was authorized."[1]

A case involving merchandise is found in the First National Bank v. Whisenhunt in which a decision rendered by the Supreme Court of Arkansas in 1910 stated in part that "since the directors of a school district have no authority to contract for the purchase of maps unless the purchase is authorized by popular vote, in an action on warrants given for the maps, the burden is upon the plaintiff to show that the contracts were so authorized."[2]

A similar case involving money is on record in Indiana in which the court stated that "in actions on warrants issued by the school trustees of a township for loans, the burden is on the plaintiff to establish that the loans were procured honestly, that there was necessity for them, and that the school township received the benefit."[3] In this case the court awarded the holder of the warrant recovery for principal and interest but denied the right for recovery of attorney's fees.[4]

A person who accepts a warrant issued to someone else and gives a consideration therefor does so at his own peril and has the burden of proof in actions to collect on it. This principle was upheld in Martinez v. Orleans Parish School Board when the courts held that the:

> Plaintiff suing as holder of school certificates payable to others, but failing to identify signature of any one of supposed indorsers, could not recover. . . . . For

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[1]Schnulenburg v. Board of Public Schools, 7 Mo. App. 573.

[2]First National Bank v. Whisenhunt, 127 S.W. 968, 94 Ark. 583.

[3]Merchants National Bank of Muncie v. Delaware School Township of Delaware County, 144 N.E. 450, 185 Ind. 658.

[4]Ibid.

he is required to prove that certificates were indorsed or assigned by parties to whom they were issued.[1]

In an attempt to secure a lien on property built from the proceeds of loans, it has been generally ruled that holders of notes or warrants executed by the directors of a school district without authority have no lien on the district's schoolhouse, in the construction of which the money was spent,[2] for anyone who deals with a board of directors is bound to know what contracts the board is authorized to make.[3]

Rights of holders in securing payment.--Since tax anticipation warrants in Illinois do not constitute any promise of payment, either expressed or implied of the taxing body issuing them, the holders thereof must rely solely on the ability and fidelity of revenue officers in the collection and payment of the money involved in the warrants.[4] In a case on record in Oregon in 1935 a bank which held warrants against a tax levy of a certain year, had the warrants reduced to a judgment in an effort to secure priority of payment over other outstanding warrants. The Supreme Court of Oregon ruled that the warrants issued in satisfaction of the judgment had no priority over other outstanding warrants in order of payment.[5] But when a school district warrant is not paid on presentment for want of funds, an endorsement to such effect should be made on the warrant by the school district treasurer. The

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[1]Martinez v. Orleans Parish School Board, 136 So. 287, 173 La. 114.

[2]Rural Special School District No. 50 v. First National Bank, 163 Ark. 150.

[3]Ibid.

[4]People v. Hayes, 6 N.E. (2d) 645, 365 Ill. 318.

[5]Cole v. School District No. 30 of Clatsop County, 47 P. 2d 229, 151 Ore. 12.

warrant is then registered in the treasurer's books. On such a registered warrant the statute of limitations does not begin to run until it is called for payment and the holder is notified to present it for redemption.[1] The holder of a school warrant has a right to its payment at its maturity, if funds are available therefor, at which time a cause of action accrues and the statute of limitations begins to run. In a recent case in Georgia it was held that warrants issued by a county board of education constituted prima facie evidence that the amount represented thereby was due as the reasonable value was received by the board and the holder had a right to full payment thereof.[2] However, holders have no choice as to acceptance of payment when funds are available. The statutes generally indicate that it is the duty of the treasurer to call school warrants for payment when sufficient funds are available. This is a protection for school districts and is not intended to confer a privilege or advantage on warrant holders. This general principle is well illustrated in the case of Schoolfield v. School District No. 1, Custer County in 1937 when the Supreme Court of Colorado stated that "the purpose of a statute requiring county treasurer to pay school district warrants in the order of their registration when available funds of the district are in his hands, and to call warrants when he has $200 so available, is to stop interest on warrants which the district stands ready to pay, and the statute was not intended to confer privilege on warrant holders."[3]

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[1]Osage Farmers National Bank v. Van Hook Special School District No. 8, 263 N.W. 162, 66 N.D. 196.

[2]Board of Education of Candler County v. Southern Michigan National Bank of Coldwater, 192 S.E. 382.

[3]Schoolfield v. School District No. 1, Custer County, 101 Col. 56.

School districts cannot escape payment of a warrant because the original holder has assigned it to another party,[1] but assignees of school warrants given in payment of part of total indebtedness, part of which is void because of exceeding the constitutional debt limit, cannot recover thereon.[2] In a suit in West Virginia in 1881, it appeared that a certain individual had a claim against the Board of Education of Sleepy Creek School District for labor and materials in building a schoolhouse. He accepted for the amount an order on the sheriff who serves ex officio as treasurer of the school districts in the county. The courts held that he could not maintain action against the board and that "he must proceed against the sheriff and his sureties; and if the amount cannot be obtained from them by reason of their insolvency, and if the payee fails to exercise reasonable diligence in the matter before their insolvency, he and not the taxpayers of the district must bear the loss."[3]

Generally the rights of the holders of school tax warrants are protected when it can be shown that the school district actually received the benefit of funds loaned or services rendered. In the case of Briggs v. Board of Trustees of Community High School, the Supreme Court of Kansas ruled that "on finding that a school district received money paid for warrants sold by treasurer and deposited in his official account, and had beneficial use thereof, the purchaser suing district is entitled to recover."[4]

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[1] Frost v. Fowlerton Consolidated School District No. 1, 111 S.W. 2d. 754.

[2] Trepp v. Independent School District of Pocahontas, 240 N.W. 247, 213 Iowa 944.

[3] Canby v. Board of Education of Sleepy Creek District, 19 W.Va. 93.

[4] Briggs v. Trustees of Community High School, 243 P. 1008, 120 Kan. 464.

Actions among school officials themselves should not affect holders of warrants when it is clearly shown that the school district received the benefits therefrom. This point is clarified by a decision rendered by the Supreme Court of Kentucky which said in part, "whatever the rights of county board of education and board of trustees . . . . as between themselves in relation to land bought by board of education and used for school purposes by school district, the rights of a bank holding the notes given by the board of education for the land are not affected."[1]

Errors made by a third party were held to be of no consequence as affecting the rights of holders in a decision rendered by the Supreme Court of Minnesota when it ruled a "holder of school warrants purchased from bank, wrongfully cashing them with bank funds, instead of district funds, may recover from district."[2] In cases where warrants are legally issued, the fact that they are made to bear interest is of no consequence as far as the rights of the holders are concerned. The additional interest is simply a statutory allowance for the delay, by way of compensation to the party who holds the warrant, for waiting until the money to pay the same is collected for its payment from current tax levies.

It is clear from the evidence presented in this discussion that holders of warrants are entitled to certain rights and remedies in the courts, and even as recently as 1938 the Supreme Court of Texas affirmed this principle when it said that "school districts which may sue and be sued, may be held liable on their obligations."[3]

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[1]Breathitt County Board of Education v. First National Bank of Jackson, 188 S.W. 770, 171 Ky. 108.

[2]Zalesky v. Consolidated School District No. 21 of Pine County, 220 N.W. 428, 175 Minn. 166.

[3]First National Bank v. Murchison Independent School District, 114 S.W. 2d. 382.

Issuance, Requisites, and Validity of Warrants

Short-term borrowing limited to revenues applicable to current expenses.--The general tenor of the legal cases on the issuance, requisites, and validity of tax anticipation warrants indicates that there is usually statutory authority to borrow money for current expenses by a pledge of current revenues. The fact that such short-term borrowings should be repaid from the current revenues against which they are pledged is an important financial and moral principle, for it has long been an accepted policy of justice that he who pays the tax shall have the benefit of it. To pay a tax which has been anticipated and used in the education of children several years in the past is not in keeping with such a policy. The budget is the device now commonly used to confine expenditures to the funds reasonably expected. Occasionally some indebtedness will develop despite all reasonable efforts to prevent it, but no policy of making debts to be taken care of by others who may have received no benefits therefrom is to be found in the statutes. Each recurring period has burdens all its own, and every care should be observed not to pass the burdens of one period on to another.

Under the constitutional provision for due process of law, a law must be binding upon and affect alike each member of a community of the same class. This constitutional provision is violated if a citizen's money is taken from him under the guise of a tax for any other than a public or corporate purpose. This principle is well illustrated in the case of Berman v. Board of Education of the City of Chicago. In 1933 the legislature of Illinois passed an act authorizing the board of education of the City of Chicago to issue bonds to pay tax anticipation warrants. The act was declared unconstitutional by a ruling of the Supreme

Court of Illinois in 1935. The main reasons given for its being invalid were:

1. The bond issue would not be for a corporate purpose but would amount to an appropriation to pay private holders of tax anticipation warrants money which the taxing body was under no obligation to pay.

2. The payment of tax warrants is confined to the taxes against which they are issued.

3. The act contained no provisions for allowing credit to those who had paid their taxes and thus imposed an unequal burden upon the said taxpayers.

4. It violated due process of law.[1]

A feature evident in school borrowing is that the regular legal processes must be observed in order to assure the validity of the warrants issued. As early as the year 1851, the case of Lander v. School District in Smithfield, Maine, brought out the importance of having school meetings legally called. In this case the court said in part:

> A vote to hire money, passed by a school district, at a meeting of which no previous notice had been given, creates no liability upon the district to repay the money borrowed in pursuance of the vote. A vote subsequently passed, though at a meeting legally called "to pay the debts due from the district" is no admission of such indebtedness.[2]

Likewise tax anticipation warrants are void if they are not on their face made payable solely from taxes already levied, when collected and which are not counter-signed as required by statute.[3] A warrant for the payment of school funds, drawn with

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[1]Berman v. Board of Education of City of Chicago, 360 Ill. 535.

[2]Lander v. School District in Smithfield, 33 Me. 239.

[3]County of Coles v. Goehring, 209 Ill. 142.

the concurrence of only two of the three trustees of a school district in California, one of whom was interested in it, was also declared void.[1] Further evidence showing the protection afforded taxpayers by the courts is evident in a case decided by the courts of Arkansas in 1937. From the facts of the case it appears that the school board used current funds to pay for a new building. Consequently it was necessary for them to issue tax warrants to the teachers for their salaries and also for other operating expenses. When the financial condition of the board became serious, they attempted to issue bonds to defray the cost of the building, which had already been paid for out of current funds. The Supreme Court of Arkansas stated in its decision on the case that:

> Appellants could have issued bonds in the amount of $5,000 to defray the cost of the new building. They did not do so, but paid the cost of its building out of its general funds. That indebtedness has been paid. It is no longer a debt for material and supplies in the construction of the building. The indebtedness now existing is represented by warrants issued for teachers' salaries and other expenses of operating the school. There is nothing in the statute which prohibits the payment of such indebtedness from its general funds and having done so, we are of the opinion that the debt is extinguished, and bonds cannot now be issued under the guise of an indebtedness for building.[2]

Another case which indicates the protection of current funds is on record in Florida where the court said in part:

> The statute contemplates that evidences of indebtedness executed by the Board to be paid from the County School Fund shall be for the amounts that may be legally borrowed and received by the Board with interest at a rate not exceeding 8 per cent per annum; that the sums borrowed shall not exceed 80 per cent of the amount reasonably expected to be received for the fiscal year from the State of Florida for the County School Fund; that the estimate of all revenue to be received from the State shall be approved by the State Superintendent of Public

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[1] Shakespeare v. Smith, 77 Cal. 638, 20 Pac. 294, 11 Am. St. Rep. 327.

[2] Bay Special Consolidated School District No. 21 of Craighead County U. Hall, 107, S.W. 2d 347.

> Instruction; that any moneys borrowed under the act for any fiscal year shall be repaid out of the first receipts of funds from the state; and that no moneys shall be borrowed unless all moneys borrowed under the act for previous fiscal years have been repaid in full.[1]

That a school warrant creates no greater liability than the debt it represents was the principle which evolved in the litigation between the St. Paul Foundry Co. v. Burnstad School District No. 321, North Dakota. The statutes of the state require competitive bidding when expenditures exceed a certain sum. Consequently warrants issued by the district in payment of an obligation arising out of a contract which failed to observe the statutes were declared invalid.[2] Likewise where a school district had not actually purchased furniture and equipment for which warrants were allegedly issued, the warrants were unauthorized and created no obligation against the district.[3] In a similar manner a warrant issued by the secretary and president of a school board without the authority of the rest of the board in payment for school supplies, was held void even though the supplies had been contracted for by a majority of the members of the board.[4] The Supreme Court of Wisconsin held invalid an order to pay out funds which the treasurer would not have until after a future tax levy.[5] Neither could the lack of authority of the president and the secretary to issue a warrant for attorney's fees be supplied by a ratification of their act by

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[1] County Board of Public Instruction of Flagler County v. McKenzie, 136 So. 899, 103 Fla. 39.

[2] St. Paul Foundry Co. v. Burnstad School District No. 321, 269 N.W. 738.

[3] First National Bank v. Murchison Independent School District, 114 S.W. 2d 382.

[4] Johnson v. School Corp. of Cedar, 90 N.W. 713, 117 Iowa 319.

[5] Scott v. Board of School Directors of Town of Armstrong, 79 N.W. 239, 103 Wis. 280.

the directors.[1] The Georgia Appeals Court held invalid school district tax notes issued by the board of trustees without a resolution that money be borrowed,[2] while in South Carolina a school warrant drawn by the trustees of a school district in one scholastic year, and countersigned and made payable by the County Superintendent of Education in another scholastic year, was held void.[3] All these decisions indicate that the courts have attempted to protect the taxpayers insofar as possible, so that tax anticipation warrants and other short-term obligations conform to the statutory provisions in the manner in which they are issued to assure their validity.

"Equity" as a factor in determining the legality of warrants.--There are on record an equal number of cases in which the validity of warrants has been upheld. In these cases there was enough equity involved to warrant a course of action and the litigations involved are as varied as were those that have been held void. The courts of Oklahoma have construed that warrants issued by a school board need not bear a seal. It is sufficient that they be signed by the president and countersigned by the clerk of the board.[4] That a mere clerical or bookkeeping error can have no bearing on the validity of a warrant is revealed in the case of School District No. 3, Carbon County v. Western Tube Co. "A school district warrant properly signed and sealed and issued for a valid indebtedness is not rendered invalid by failure of the

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[1]Bingham v. McGehee, 249 S.W. 2d 358, 185 Ark. 707.

[2]Jasper School District v. Gormley, 196 S.E. 232, 57 Ga. App. 537.

[3]Loan and Exchange Bank v. Shealey, 40 S.E. 674, 62 S.C. 337.

[4]Hopley v. Benton, 132 P. 803, 38 Okla. 223.

district clerk to number it as other warrants are numbered."[1] Neither are school warrants rendered invalid because of the failure to present them to the treasurer within sixty days after issuance.[2] But school building contractors and equipment vendors in Arkansas who took warrants on the state equalizing fund for sums exceeding the amount voted by the district electors to pay bonds, had no right to warrants on a school district's general school revenues.[3] That certain school authorities are without discretion in the performance of their duty is revealed in the case of Berkeley High School District of Alameda County v. Coit. In its decision on the case the court held in part that the "county treasurer and auditor are bound to sign tax anticipation notes, issued by county board's order on a high school district governing board's request to provide funds for the payment of obligations to be incurred during the current fiscal year, as against the contention that statute only authorizes issuance thereof to pay obligations already incurred during such year."[4]

Further interpretation of this point is found in Crawford v. Brisley in Oklahoma where the Supreme Court held:

> School district warrants regularly issued to pay for teaching under legal contract based on approved estimate are entitled to registration by treasurer holding tax funds to pay them. . . . . Such registration is a condition precedent to action at law based thereon.[5]

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[1]School District No. 3, Carbon County v. Western Tube Co., 80 P. 155, 13 Wyo. 304.

[2]Davis v. White, 284 S.W. 764, 171 Ark. 385.

[3]Fets v. Cherry Hill School District No. 10, 68 S.W. 2d 647, 188 Ark. 990.

[4]Berkeley High School District of Alameda County v. Coit, 55 P. 2d 209.

[5]Crawford v. Brisley, 268 P. 713, 131 Okla. 230.

Derived power of school boards to issue tax warrants.--In some instances the school board acts as an agency of the city government and as such, derives its power through the city charter. In such cases the board of education has no more authority to levy taxes than the police, fire, or any other department of the city government. Peoria, Illinois, is a city which operates under this plan and the case of Gray v. Board of School Inspectors in 1907 clarifies a number of principles governing the fiscal relationships of the school board and the city government. The city charter of Peoria provides that the board of school inspectors shall appoint trustees who shall raise all moneys under control of the school board, and keep an accurate account of the money paid out by the board. The school board is required to determine the amount of money to be raised by taxation for the support of the schools and to notify the city council of such amount and the rate to be levied. The city council is then required to levy and collect the amount needed along with other city taxes. The Supreme Court of Illinois held that:

> No discretion is given to the city council as to the amount of tax to be levied. . . . . The school board had the authority to issue warrants and sell them for cash. . . . . That means practically the borrowing of money to meet the ordinary and necessary expenses of the schools. . . . . It would not be in accord with equitable principles to enjoin the school board from paying back, out of these taxes, the moneys so obtained in anticipation of their collection.[1]

The statutes of Illinois make provision for short-term financing by providing that whenever there is not sufficient money in the treasury of any county, city, town, village, school district, or other municipal corporation to meet current expenses, the proper authorities may provide a fund to meet such expenses by issuing warrants in anticipation of taxes levied for the payment

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[1]Gray v. Board of School Inspectors of Peoria, 83 N.E. 95.

of the ordinary and necessary expenses to the extent of 75 per cent of the total tax so levied. This confers power on the school board to defray and meet ordinary expenses with money borrowed on warrants in anticipation of taxes within the amount specified, provided the warrants are so drawn as to be payable only from the taxes when collected and that such taxes are set apart to pay them. Since the city school board of Peoria had power to issue tax anticipation warrants levied for school purposes the "fact that the board delegated to its finance committee the determination of the amount of money to be raised by sale of warrants, and that the warrants themselves were defectively issued and executed, would not invalidate them; the board have unanimously ratified them after they were issued by a vote at a regular meeting."[1]

Legal issuance of warrants generally upheld.--Whenever a debt is legally incurred, the board can usually be held responsible for its payment. An issue of bonds by a school district in Kentucky to refund validly created debts was recently held legal as against a contention that the board of education had no authority to carry indebtedness over from year to year but must provide for payment of a deficit at the end of the year out of revenues from the succeeding year. The debt remained legal regardless of whether the board of education should have paid it before, and a valid debt of a board of education in Kentucky may be refunded.[2] Likewise, school warrants issued by a school board in South Dakota in payment of necessary additions for a schoolhouse during the time school was taught were held to be prima facie valid claims against the school district, and in the absence of evidence to the contrary

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[1] Ibid., 231, Ill. 63.

[2] Mead v. Board of Education of Johnson County, 103 S.W. 2d 701, 268 Ky. 71.

it was presumed that they were lawfully issued.[1]

Another case upholding the validity of tax warrants legally issued is found in the case of Citizens Bank v. Rowan County Board of Education, Kentucky, in 1938. From the facts of the case it appears that for six consecutive years tax warrants were issued against anticipated revenue, and the tax collections were such that the warrants could not all be redeemed. In order to consolidate the outstanding warrants into a single obligation, the county school board gave a note for the entire amount. The litigation evolved around the validity of the note thus given. In its decision on the case the Supreme Court of Kentucky states in part:

> Warrants which were issued over a period of six years for governmental expenses of a board of education, and which did not exceed with prior indebtedness, the revenue that could be lawfully anticipated for the particular year, were valid obligations when issued, and hence a note by which warrants were taken up was valid, regardless of whether the amount of the note exceeded the anticipated revenue for the year in which the note was executed. . . . the validity of the indebtedness must be determined by the financial status of the school district when such items of indebtedness are created. . . . . Boards of education may not expend more than income anticipated from the state as pupil per capita and from levy and collection by the fiscal courts, since they do not have authority to levy taxes.[2]

This is in accord with the principle followed in Florida where school boards are not prohibited from becoming indebted for current expenses as long as the amount is within the current tax levies.[3] Provision is also made for refunding such indebtedness. In the case of the Board of Public Instruction of Pinellas County v. State ex rel. Beers, the courts of Florida said a "valid debt

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[1]Edinburg-American Land and Mortgage Co. v. City of Mitchell, 1 S.D. 593, 48 N.W. 131.

[2]Citizens Bank v. Rowan County Board of Education, 148 S. W. 2d, 704, 274 Ky. 481.

[3]Savage v. Board of Public Instruction for Hillsborough County, 101 Fla. 1362, 133 So. 341.

of county board of public instruction payable out of general county school fund, valid when created within the amount of anticipatable school revenues for school year in which debt was created, does not become invalid solely by reason of its being authorized refunded under authority of an act of the Legislature so providing."[1] But since the anticipated revenue of a school board is its budgeted revenue, it should be shown that a sufficient sum is budgeted to take care of expenses. This is a demand which must be met if a district in Kentucky desires to issue bonds to fund floating indebtedness resulting from an accumulation of several annual deficits.[2]

As a sound financial policy, money should be borrowed for school purposes only when and to the extent that is absolutely necessary to conduct schools as provided by statutes. If the necessary expenses incurred by a school district in a fiscal year exceed reasonably contemplated revenues, the condition should be adjusted in following budgets to avoid increasing current debts. It is certain that a school district cannot operate indefinitely under a plan whereby the indebtedness incurred is more than the funds received.

Payment of Warrants, Orders, and Notes

Responsibility for payment of warrants.--School districts are responsible for the repayment of money which has been lawfully and in good faith borrowed and used for authorized school purposes. School indebtedness once legally incurred, if not paid when due, continues as a charge payable at a later date, out of revenue for

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[1]Board of Public Instruction of Pinellas County v. State ex rel. Beers, 172 So. 922.

[2]Arrowood v. Board of Education of Paintsville Graded School District, 269 Ky. 464.

school purposes even though the payment tends to diminish the revenue that would be available for current school expenditures. It has become an accepted principle that a board of education lawfully incurring debts to operate a school, has power to repay debts from any fund lawfully applicable thereto.[1] In an early Mississippi case in 1882 exception is taken to this principle when the courts stated that outstanding school warrants for past years could not be paid out of funds specifically raised for the current year unless there was a surplus above the amount needed.

> The limitation upon the power of taxation is something more than a limitation upon the amount which the board may raise. It is a limitation also upon the purpose for which it may be raised. The tax can be levied and collected solely for the purpose of conducting the schools during the year, though it is doubtless true, that if the levy imposed resulted in the collection of a greater sum, the excess could be reached by the holders of warrants of other years. However meritorious may be the demands of such holders, and however anxious may be the board to provide for their payment, it is powerless to do so. Deriving its power of taxation from the Legislature, it cannot exceed the limit given, either as to amount or purpose.[2]

In 1938 the Supreme Court of Kentucky held that "if the obligations of a board of education forming the consideration of a note are valid, the board can not escape payment of the note by not including the amount in any of its budgets."[3] This is in accord with the decision rendered in the case of the State v. Gardner in Nebraska, where in 1907 the courts held "the fund for school maintenance is a continuing fund on which warrants may be drawn

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[1]Logan v. Board of Public Instruction for Polk County, 118 Fla. 184, 158 So. 720; Board of Education of Houston County v. Board of Trustees of Ft. Valley Consolidated School District, 170 Ga. 509, 153 S.E. 214; State Bank of Bowling Green v. Board of Public Instruction for Hardee County, 116 Fla. 184; Moody v. Chesser, 183 S.W. 23; Citizens Bank v. Rowan County Board of Education, 274 Ky. 481.

[2]Foote v. Brown, 60 Miss. 155.

[3]Citizens Bank v. Rowan County Board of Education, 274 Ky. 481.

for current expenses without respect to the amount of taxes levied each year, and, if not paid for want of funds, such warrants may be registered and paid in the order of their registration upon the accumulation of money in the fund."[1] And again in Logan v. Board of Public Instruction for Polk County, we find that "money lawfully borrowed. . . . must be paid from funds accruing to such districts, though current expenditures be in a measure curtailed."[2] When current revenues are available and sufficient but not presently at hand, a "debt" is not created within the constitution by anticipating payments through short-term loans payable during the current year out of current revenue intended for such use.

Lenders of money are generally protected in their rights to receive payment of their short-term loans, insofar as being affected by the manner in which the proceeds from the loans are spent. Inefficient management and extravagant spending by a board of education of its funds do not affect the lenders, providing they do not participate in such needless expenditures or do not lend money with notice of intended or actual improper use. As long as the money is used for authorized school purposes, the lenders are protected, and whether or not an expenditure is extravagant is entirely a different matter.[3]

Rights and duties of the school treasurer.--There is considerable evidence in the court records which shows that treasurers of school districts tend to assume responsibility that is not legally theirs in the payment of school funds. Numerous occasions have arisen where they assumed the power for the distribution of

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[1]State v. Gardner, 112 N.W. 373.

[2]Logan v. Board of Public Instruction for Polk County, 118 Fla. 184, 158 So. 720.

[3]Ibid.

funds without being given such authority, either expressed or implied by the statutes. It appears that the office of school treasurer was clearly defined by the Supreme Court of North Dakota in 1931 when it held in part that a "school district treasurer is a ministerial office without discretion respecting payment of warrants properly drawn and signed."[1] In the case of the First National Bank v. School District No. 1 of Carlton County, it was held by the Supreme Court of Minnesota that the "school district treasurer breaches his legal duty by making payment on a warrant not presented to him for payment."[2] The statutes of Minnesota make it quite clear that warrants of school districts become due when presented to the district treasurer for payment.[3] An early decision on the activities of a school district treasurer dates back to 1860 in Pennsylvania in the case of Dickinson Township v. Linn when the court held that "a treasurer for the school fund cannot claim credit for the payment of a warrant illegally issued if he aided in its issue."[4] Neither can school treasurers pay out money on warrants until they are approved by all officials whose legal duty it is to attest such approval by affixing their signatures thereon. This point is well illustrated by the case of the Richland Supply Company v. Wilson in the State of South Carolina. In this instance certain claims were approved by two of three school officials, the auditor and treasurer, but not the county superintendent. The Supreme Court of South Carolina ruled that "valid

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[1]School District No. 35 of Cass County v. Shinn, 237 N.W. 693, 61 N.D. 160.

[2]First National Bank v. School District No. 15 of Carlton County, 217 N.W. 366, 173 Minn. 383, 56 A.L.R. 1369.

[3]First National Bank v. Consolidated School District No. 28 of Jackson County, 240 N.W. 662, 184 Minn. 635.

[4]Dickinson Township v. Linn, 36 Pa. (12 Casey) 431.

claims . . . . must be approved for payment by the county superintendent of education in accordance with the provisions of Section 5382 of the Code of Laws of South Carolina for the year 1932 . . . . before entitled to payment by the county treasurer."[1]

School treasurers and their sureties are responsible for the payment of warrants when presented providing the funds are available. Just how long a holder of a warrant may keep the same in his possession before presenting it for payment is not clearly defined by the courts although it is stated in the case of Dubard v. Nevin that "in the absence of a statutory requirement, the failure for three days to present school warrants for payment though resulting in loss to county treasurer is no ground for refusal of payment."[2]

Priority of payment of school warrants.--Tax anticipation warrants are entitled to no priority over other obligations in their payment even though they are issued as an "emergency" measure and school officials cannot divert taxes collected for the payment of prior bonded indebtedness to the payment of tax anticipation warrants. The Illinois Appelate Court sustained this principle in 1935 when it held "the Constitutional provision requiring retirement of school district bonds under a 20-year installment schedule, Article 9, Section 12, prohibits the payment of tax anticipation warrants out of collected taxes before the accrued bond and interest obligations are paid in full."[3]

Further regulations on the power of boards to make payments on tax warrants are brought out in the decisions of the courts in

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[1]Richland Supply Co. v. Wilson, 182 S.C. 246.

[2]Dubard v. Nevin, 107 S.W. 2d. 875, 178 Ark. 436.

[3]First National Bank v. School District No. 64, Cook County, 278 Ill. App. 190.

several miscellaneous cases. For example, where warrants registered in 1930 and a note for money borrowed in 1931 could not both be paid with funds on hand, it was ordered that the warrants should be paid first.[1] In Alabama warrants for the erection or equipment of school buildings may be made preferred claims upon the proceeds of the "three-mill" county school tax, but the warrants are payable only if and when the tax is derived.[2] Likewise, a school corporation cannot pay for work in advance, or from sources other than the money applicable to that purpose.[3] A Florida statute provides that boards of public instruction shall pay in full the money borrowed in any one year before being authorized to borrow on the estimate of any succeeding year. In its interpretation of this law, the Supreme Court of Florida held that "this statute . . . . does not amount to an express prohibition on the power of the board to borrow on the estimate for any succeeding year until sums so borrowed in previous years should have been paid in full, but merely shows that the board lacked authority so to borrow."[4] Where the statutes of Georgia provided that the expenditures of county school funds should conform to the budget and all money coming into the county fund had been allocated by the budget to the payment of current obligations, it was ruled in the case of Lewis v. Board of Education of Lowndes County in 1936 that a creditor who had loaned money to a school district for a previous year could not by equitable decree compel payment of the loan out of

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[1] State v. Taylor, 55 S.W. 2d 80, 186 Ark. 554.

[2] Opinions of the Justices, 231 Ala. 152.

[3] Caldwell v. Bauer, 90 N.E. 117, 179 Ind. 146.

[4] Board of Public Instruction for Washington County v. Cooey, 175 So. 219.

current funds.[1] Another case shows that school boards have a right to correct errors in payments made or received. In the case of Frost v. Fowlerton Consolidated School District No. 1, it appears that through a mutual mistake taxes were paid on some property not within the school district. The board was held authorized to have power to issue a warrant for repayment of the amount so received.[2]

Maximum interest rates determined by statute.--The rate of interest to be paid on all short-term obligations is quite definitely stated in the statutes. It is either stated as a certain "maximum" per cent or the "legal rate." The highest rate, 8 per cent, is found in Florida, Nevada, New Mexico, South Carolina, and Washington, and the lowest, 4 per cent, in Indiana and Texas. Cases on record show that usually the rate actually charged is much lower than the maximum. This apparently is perfectly legal as long as it is agreed to by the parties involved. In the case of Winsted Savings Bank v. Town of New Hartford, it appears that loans and school orders were carried by the bank with no definite maturity rate, but payable on demand with interest at 4 per cent. When payment was demanded and was not made, the Supreme Court of Connecticut ruled that the "obligation for the indebtedness carried with it the obligation for the interest thereon, and the duty to pay it."[2] An Alabama case recorded in 1935 indicates that it is illegal to pay premiums on callable warrants and thus bring the interest rate above the maximum allowed by statute. "Callable" means

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[1]Lewis v. Board of Education of Lowndes County, 189 S.E. 233, 183 Ga. 687.

[2]Frost v. Fowlerton Consolidated School District No. 1, 111 S.W. 2d 754.

[3]Winsted Savings Bank v. Town of New Hartford, 62 A. 81, 78 Conn. 319.

option to pay before maturity on call. In rendering their opinion the justices all concurred in the decision that "the act . . . . provides that the warrants must be callable, and that they shall not bear more interest than 6 per cent per annum, a provision in the warrants for a premium on call or for other purpose would be prohibited and void."[1] In Illinois where tax warrants are outstanding for a considerable length of time, a recent interpretation of the statutes gives boards of education a clear interpretation as to expenditures for interest on tax warrants. This decision, rendered in 1938, stated that "the Legislature did not intend that the restrictions on the board of education against incurring any liability which involves the expenditure of money for any purpose for which provision is made in the annual school budget in excess of amounts appropriated in the budget should apply to appropriations for interest on tax anticipation warrants."[2]

Bills and Notes

Notes and bonds as school district obligations.--Boards of education have occasionally settled their outstanding obligations by issuing promissory notes in payment thereof. As a result of such action there has been considerable litigation over the validity of the notes issued. Since the facts surrounding each case are radically different, it is deemed advisable to consider only those cases that appear to clarify the existing facts or that establish somewhat of a general principle.

At the very outset it is apparent that notes executed by a board of education with interest coupons made payable in a series

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[1] Opinions of the Justices, 231 Ala. 151.

[2] People ex rel. Lindheimer v. Huron and Orleans Bldg. Corp., 14 N.E. 2d 639, 368 Ill. 469.

of succeeding years after the date of issue are equivalent to bonds.[1] Where the power is given to school boards to borrow money for certain purposes on a vote of the people and to issue bonds therefor, they cannot construe this as meaning that they can issue promissory notes which would be binding on the district.[2] This principle was at point in the case of the School Directors v. Miller in the year 1870 when it was said by the Supreme Court of Illinois that:

> School directors have no power under the statute to purchase a schoolhouse site or borrow money to erect a schoolhouse, except on a vote of the people. Therefore, the directors cannot give their promissory notes for such consideration so as to bind the district unless the vote has been taken.[3]

Should there be an action against the school directors acting in their corporate capacity on such notes, it would be necessary for the holder to show that the debt was incurred in a manner and for purposes authorized by statute. After proof of these facts is made, the notes can be admitted as evidence to show the amount of money loaned, but they would not of themselves prove a liability of the district.

Notes given for authorized indebtedness.--The principle is well established that school districts may be held liable for notes given by them if it can be made to appear that they were given for an indebtedness that the board was authorized to make. The money borrowed by a board of education in Ohio on a promissory note was used to meet accruing obligations to teachers, janitors, and other creditors. It was held by the courts that such a note must be

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[1]Board of Public Instruction of Lafayette County v. Union School Furnishing Co., 129 So. 824, 100 Fla. 326.

[2]School Directors v. Sippy, 54 Ill. 287.

[3]School Directors v. Miller, 54 Ill. 338.

repaid even though the board had not complied with the statutory requirements respecting resolutions and certificates.[1] In Indiana a township trustee has no right to borrow money for the school township, but the township may be held liable for money borrowed by him and actually used for the benefit of the school township in a legitimate way.[2] A school township was also held liable for money loaned on a note to its trustee for the purpose of completing a needed and suitable schoolhouse when the money was expended and there were no funds on hand for that purpose.[3] In the case of Robbins v. School District No. 1 of Anoka County, it was established that promissory notes were valid only against a definite fund. In this case it appears that upon an accounting between the trustees of the school district and a person who had performed labor for the district, promissory notes were executed by the trustees for the amount due and made payable at a later date. A decision on the case rendered by the Supreme Court of Minnesota in 1865 held that "such notes were valid between the parties, at least as a contract for forbearance and promise to pay the amount specified, but that a judgment upon them could be enforced only against a fund raised by levying a tax for payment of the indebtedness."[4] Likewise the statute on record in Florida authorizing county school boards to borrow money was interpreted as implying that the board was empowered to execute notes in evidence of indebtedness in

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[1]Bower v. Board of Education of Fulton County, 28 Ohio Cir. Ct. R. 624.

[2]First National Bank v. Union School Township, 75 Ind. 361; Wallis v. Johnson School Township, 75 Ind. 368.

[3]Bicknell v. Widner School Township, 73 Ind. 501.

[4]Robbins v. School District No. 1 of Anoka County, 10 Minn. 340 (Gil. 268).

accord with usual business practices.[1] The case of Brock v. Bruce in Vermont is also lenient in its interpretation of the validity of promissory notes. In its decision on this case it was said in part by the Supreme Court of Vermont that "money borrowed by the committee for paying expenses of a school on the credit of the district may be treated as valid when it is merely to supply a temporary need in respect to expense for which a tax might legally be assessed under the vote of the district."[2] Further evidence on this point is found in a decision by the Supreme Court of Michigan that said:

> Where the power exists in a municipal corporation to bind itself, where the contract is intravires, it will be bound, even though it may have proceeded irregularly and in disregard of directory provisions as to the exercise of its power. . . . . What the district at its annual meeting could authorize, it could subsequently ratify at an annual meeting.[3]

Several cases are on record dealing with notes which involve the resident taxpayers of the school district. A bank which advanced money to a school district on reliance of an agreement of the resident taxpayers of the school district to borrow money for the benefit of the district and sign a note therefor was entitled to recover from such taxpayers damages sustained by their refusal to execute the note.[4] Again in this case, the trial court ruled that "taxpayers' promise to sign note for loan to school directors to complete a school building was equivalent to a promise

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[1]Board of Public Instruction for Lafayette County v. First National Bank, 114 So. 738, 111 Fla. 4, 149 So. 213.

[2]Brock v. Bruce, 59 Vt. 313, 10 Atl. 93.

[3]Commercial State Bank of Shepherd v. School District No. 3 of Coe Township, Isabella County, 196 N.W. 373, 225 Mich. 256.

[4]Bank of Corning v. Consolidated School District No. 6 of Atchison County, 37 S.W. 2d 982, 225 Mo. App. 821.

to pay,"[1] and the statutes regulating raising of money and amount of indebtedness did not invalidate individual taxpayers' agreement to sign a note for a loan to the school directors to complete a school building. An opinion rendered by the Supreme Court of Arkansas in the case of Rural Special School District No. 50 v. First National Bank, the court held that "notes executed by the board of directors . . . . for money borrowed to erect a school building are void if not authorized by a majority of the electors at an annual school meeting as required by statute."[2]

Neither could the school directors in the above case be held personally liable on the notes executed by them without authority from the electors of the district for the payees had an equal opportunity to know the law and took the notes at their own peril. The fact that the school building was being used for the benefit of the district was considered as being of no consequence in the action against the directors.

Several opinions have been rendered by the courts of Indiana regarding the validity of school notes. In 1885 in the case of Union School Township v. First National Bank, the Supreme Court of Indiana said "a trustee has no authority to borrow money or execute notes in the name of a school township,"[3] and again in 1891 that "a note executed by a township trustee for school supplies does not bind the school corporation, unless the supplies have been actually furnished."[4] In a decision rendered in 1893 in

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[1] Ibid.

[2] Rural Special School District No. 50 v. First National Bank, 173 Ark. 604.

[3] Union School Township v. First National Bank, 2 N.E. 194, 102 Ind. 464.

[4] Litten v. Wright School Township, 26 N.E. 567, 127 Ind.81.

the State v. Helms, the Supreme Court held that "where a school township trustee signs a note and adds to his signature 'Trustee of S. Township' the note binds the township, and not the trustee individually."[1] Another decision given by the Indiana Supreme Court in the year 1884 stated that "a trustee of a school corporation has no general authority to execute notes, and his authority in such respect is special, and can only be exercised in conformity to the statute creating the corporation."[2]

However, it was held that an Indiana board of school commissioners had power to contract for the erection and completion of a schoolhouse and agree to pay the contractor partly on time by giving him notes. The notes so executed were valid obligations of the school corporation.[3] Also in 1877 it was held that a school township by and in the name of its trustee could execute a valid promissory note for any debt contracted for the benefit of its property, but an assignee thereof takes it subject to all defenses.[4] This is in direct contrast to a decision in Alabama where it was said by the courts that "county boards of education cannot issue notes of indebtedness without election or without regard to constitutional limit upon county indebtedness."[5] Likewise in Georgia it was ruled that action does not lie on notes for money borrowed to maintain and operate schools since the trustees could not borrow money and no liability is attached to the district for

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[1] State v. Helms, 136 Ind. 122, 35 N.E. 893.

[2] Reeve School Township v. Dodson, 98 Ind. 497.

[3] Fatout v. School Commissioners, 1 N.E. 389, 102 Ind. 223.

[4] Sheffield School Township v. Andress, 56 Ind. 157.

[5] Hardwick et al v. State, 231 Ala. 151.

money borrowed by trustees.[1] The words "School Trustees" after the names of the two signers of a note were merely "descripto personarum" and did not render the note that of the school corporation, and consequently the holder of the note had to look to the makers and not to the school district for payment.[2]

An early case in the State of Massachusetts shows the use of notes there in 1873. From the records of the case it appears that a meeting of the school district was called to see if the district would raise money to pay their debts. The result of the meeting was that the treasurer was authorized to borrow money to pay the debts of the district. He borrowed the necessary money and gave a promissory note of the district bearing interest at 7 per cent. The Supreme Court of Massachusetts held that the note, even if not negotiable, was evidence of money lent and the holder was entitled to payment.[3]

Summary of Legal Principles Involved in Short-Term Borrowing

School districts are considered as quasi-corporations and have no inherent right to borrow money or negotiate loans, but must derive such rights from the statutes. The funds borrowed must be against taxes already levied or against funds anticipated to be received from state aid or other sources applicable to the current fiscal year. Tax anticipation warrants are void if they are not made payable solely from taxes already levied. The courts will not sanction a policy of contracting debts through short-term loans to be taken care of by others who may have received no benefits from

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[1] Wright v. Atlantic Coast Line R. Co., 139 S.E. 817, 165 Ga. 101; Powell v. Bainbridge State Bank, 132 S.E. 60, 161 Ga. 855.

[2] Trustees of Village of Cohokia v. Rautenberg, 88 Ill. 219.

[3] Whitney v. Inhabitants of Stow, 111 Mass. 368.

them. The authority to borrow money for current expenses means the pledging of only revenues applicable to the current year for their payment.

Tax anticipation warrants issued in Illinois do not constitute any promise of payment, either expressed or implied, on the part of the taxing body issuing them and they constitute no obligation between the taxing body and the purchasers or holders of the warrants. The legal issuance of the warrant discharges the taxing body from all liability on account of the obligation for which it was drawn. The issuance of a tax anticipation warrant is in reality an assignment of funds and the holder thereof takes it at his own peril. He must rely solely on the ability and fidelity of the revenue officers in the collection and payment of the money involved in the warrants. The rights of the holders are generally confined to the particular tax levy against which the warrants have been issued, and the burden of proof lies on the holder to show that their issuance was authorized and done in good faith. Holders of warrants must accept payment when the funds are available. Even if a warrant is reduced to a judgment, it has no priority over other outstanding warrants in the order of payment nor can the judgment be paid from any other funds but those pledged for the payment of the original warrant.

It has become an accepted principle that a board of education which lawfully incurs debts to operate a school has the power to repay the debts from any fund lawfully applicable thereto. The lenders of money on short-term loans are protected in their rights to receive payment insofar as being affected by the manner in which the proceeds of the loans are spent. Extravagant spending or inefficient management of the funds by the school board do not effect the lenders as long as they are not a party to such acts.

School warrants are not negotiable. When properly endorsed they can be passed on to others than the original payees, but the purchasers take them subject to all legal actions which might originally exist. There are no innocent purchasers for value. The courts will not sustain payment of warrants when evidence shows that there has been no consideration involved but an attempt to defraud has been made. Consequently warrants are prima facie but not conclusive evidence of legal claims. Neither can school boards issue short-term tax warrants or loans in lieu of bonds for the erection of new buildings. Where the power is given to school boards to borrow money for certain purposes on a vote of the people and to issue bonds therefor, they cannot construe this as meaning that they can issue promissory notes or tax warrants which would be binding on the district.

In some instances the school board acts as an agency of the city government and as such, derives its power from the city charter. Where this relationship exists, the board of education has no more authority to levy taxes or negotiate loans than the police, fire, or some other department of the city government.

The statutes have rigidly guarded the rights of the people to express themselves in school affairs and especially before a large indebtedness is thrust upon them. School boards act under restricted power with respect to their control of funds and have been generally limited to borrowing only for current expenses by pledging current revenue unless they get the further consent of the people. The statutes do not intend that the school facilities shall be enlarged for one or more years so as to consume in advance funds provided for the schools of the future years. In all their decisions, the courts have attempted to protect the taxpayers insofar as possible so that tax anticipation warrants and other

short-term obligations conform to the statutory provisions in the manner in which they are issued in order to assure their validity.

CHAPTER IV

THE USE OF SHORT-TERM BORROWING IN FINANCING THE SCHOOLS

General Principles Regulating Short-Term Loans

The importance of short-term borrowing for school purposes is indicated by the fact that forty-four of the forty-eight states have set up laws to regulate its use by school officials. These provisions have been made in part in recognition of the need for a method of financing the schools for short periods of time before the allocated funds are available. In many school districts where the fiscal year and tax year do not coincide, short-term borrowing is used as a device by which the schools meet their expenses during the period before taxes become payable. In other instances, it is used as a means of covering a deficit created in the budget by unforeseen emergencies. In some instances it may be employed as a means of financing expenses pending an issue of long-term bonds. No matter in what form such short-term loans are employed in educational administration, two general principles in relation to their use are generally recognized: (1) short-term loans must be repaid solely from designated tax levies or other revenue pledged toward their payment, (2) their validity is dependent upon borrowing against these specified revenues in such amounts and under such regulations as are set up in the statutes. The authorization of short-term loans for school purposes in the different states is shown in Table 4.

It is evident that there is no general agreement among the

TABLE 4

STIPULATIONS GOVERNING SHORT-TERM BORROWING FOR SCHOOL PURPOSES

State	Short-Term Borrowing Permitted		Maximum Per Cent Interest	Per Cent of Anticipated Revenue That May Be Borrowed
	Yes	No		
Alabama	X	....	6	33 1/3
Arizona	X	....	6	....[a]
Arkansas	X	....	....[a]	....[a]
California	X	....	6	85
Colorado	X	....	6	....[a]
Connecticut	X	....	....[a]	....[a]
Delaware	....	X	....[a]	....[a]
Florida	X	....	8	80
Georgia	X	....	....[a]	100
Idaho	X	....	6	....[a]
Illinois	X	....	6	75,[b] 90[c]
Indiana	X	....	6,4	33 1/3[b], 75[d]
Iowa	X	....	5	....[a]
Kansas	X	....	....[a]	25
Kentucky	X	....	6	75
Louisiana	X	....	7	....[a]
Maine	....	X	....[a]	....[a]
Maryland	....	X	....[a]	....[a]
Massachusetts	X	....	....[a]	....[a]
Michigan	X	....	7	10[e], 80[b], 80[f]
Minnesota	X	....	6	65
Mississippi	X	....	6	25[g], 50[b]
Missouri	....	X	....[a]	....[a]
Montana	X	....	....[a]	90
Nebraska	X	....	6	70
Nevada	X	....	4	....[a]
New Hampshire	X	....	....[a]	....[a]
New Jersey	X	....	6	80[h], 80[i], 50[b]
New Mexico	X	....	8	....[a]
New York	X	....	6	....[a]
North Carolina	X	....	....[a]	....[a]
North Dakota	X	....	7	....[a]
Ohio	X	....	....[a]	50
Oklahoma	X	....	....[a]	....[a]
Oregon	X	....	5	....[a]
Pennsylvania	X	....	....[a]	....[a]
Rhode Island	X	....	....[a]	....[a]
South Carolina	X	....	7	75[b], 50[j]
South Dakota	X	....	6	....[a]
Tennessee	X	....	6	....[a]
Texas	X	....	4	80[b], 60[j]
Utah	X	....	....[a]	100
Vermont	X	....	....[a]	....[a]
Virginia	X	....	6	50[b], 50[j]
Washington	X	....	....[a]	....[a]
West Virginia	X	....	....[a]	....[a]
Wisconsin	X	....	....[a]	50
Wyoming	X	....	6	....[a]
Total	44	4	....	....

a) Not specified in per cent, b) current tax levy, c) if working cash fund has been set up, d) delinquent taxes, e) next year's tax levy, f) special assessments, g) federal aid, h) railroad tax, i) tuition, j) state aid.

states as to the percentage of the anticipated revenue which may be borrowed. In Kansas the school districts may borrow only 25 per cent of the anticipated revenue, while in Utah and Georgia 100 per cent may be borrowed. Other states with high percentages are Montana and Illinois where the maximum amount of borrowing under the conditions specified is 90 per cent of the money to be received from current tax levies. Generally it appears that such short-term borrowing is limited to about 50 to 75 per cent of the current tax levy.

Some states designate several different percentage limitations for the different funds against which the borrowing is done. In New Jersey for example, the school districts may borrow 50 per cent of the current tax levy, 80 per cent of the railroad tax levy, and 80 per cent of the tuition due the district. Other states that make a differentiation in the fund against which the borrowing is done are Indiana, Michigan, Mississippi, South Carolina, and Texas.

Four states do not authorize short-term borrowing. The constitution of the State of Missouri prohibits the issuing of interest-bearing warrants by the political subdivisions. In Delaware, where the schools are supported almost entirely by state funds, a State Emergency School Fund is provided for the use of the governor when a school building is destroyed by fire or some other casualty and there are insufficient funds to replace the same. Maine has no provisions for short-term borrowing by the schools. In Maryland the short-term borrowing that is done is carried out under the general powers and duties of the school board.

Short-term financing also enters into the educational administration of schools by transferring funds or borrowing from funds within the district. This practice is specifically authorized by the statutes of Indiana and California. While it has the

advantage of confining short-term borrowing to the district's own resources, thereby saving interest cost, it also has some apparent dangers. It is evident that any funds accruing to the credit of a school district are for some established purposes; in some cases to meet obligations on outstanding bonds. Using such funds for any other purpose is a dangerous practice, especially if there is no assurance that the fund can be reimbursed before it is needed. In many states "transfer" or "inter-fund" borrowing is definitely prohibited.

The amount of short-term borrowing required in the financing of different types of school districts within a given state may vary considerably. Unfortunately in most instances the data in the annual reports of the state superintendents do not list such items separately for the different kinds of school organizations.

Amount of Short-Term Borrowing Reported

There is a great deal of variation in the amount of short-term loans negotiated by the school districts of the different states. The data as reported by the State Superintendents of Public Instruction are recorded in several forms. In some states the outstanding warrants are reported as of the end of the year, while in others the receipts from short-term loans or the payments of short-term loans are recorded. Several states maintain a record of both the receipts and payments of the short-term obligations of the school districts. For the purposes of this study data have been used from state reports which seem to be adequate and cover a sufficient number of years in comparable form.

Since the amount of short-term financing done is important largely in its relationship to the cost of the educational services offered, the data have been recorded so as to indicate the general trend and the relationship of short-term borrowing to the

educational expenditures in a selected group of states. The tables presented in this chapter will show the relationship of short-term financing to the educational program by giving the specific amounts borrowed in specified years and the ratio of the amount borrowed to the cost of operating the schools. It is apparent that this relationship can best be shown in tabular form when the data cover a period of years. In addition to the specific relationship for each year, the average percentage and range for the entire period covered by the data are shown.

In some tables the receipts from short-term loans are reported, while in others the amount outstanding at the end of the year or the payments made on them during the year are recorded. It has been found that the averages of these indices of borrowing are about the same from year to year when the state reports show the amounts in more than one form. Therefore, the status of short-term borrowing in a particular state is quite clearly indicated if either the receipts or the expenditures on account of short-term loans are reported.

It is to be noted also that statistics of school revenues and expenditures are not uniformly reported in the published documents of the different states. Some official reports show only receipts for school purposes, in some of them only current expenses are listed, others report only total expenditures, while some of them report two or more of these items. For this reason the ratio of short-term borrowing to school costs is not uniformly presented in the different tables presented in the present chapter. This lack of uniformity is not particularly significant, however, because the ratios for different years for any given state are comparatively uniform from year to year, whether expressed with reference to receipts, to current expenses, or to total expenditures.

The series of percentages based upon current expenses in any case runs at a higher level than the corresponding series based upon total expenditures for a given state school system. Either series of relatives is obviously serviceable for the purposes of this study.

Colorado.--Short-term borrowing enters extensively into the financial operations of school boards in Colorado. The data on the use of warrants by the schools of the state have been recorded in the reports of the State Superintendent of Public Instruction since the year 1897. Warrants are issued directly to the creditors of the district, and if there are no funds on hand to pay them, such a notation is made thereon by the treasurer and they bear interest at a rate not in excess of 6 per cent.

The total expenditures and warrants outstanding annually in the schools of Colorado from 1897 to 1936 are shown in Table 5. During the forty year period covered by the data, the amount of warrants outstanding at the end of the year averaged 15.63 per cent of the total expenditures. The range is from 3.3 per cent in 1905 to 26.72 per cent in 1897. It is apparent that short-term financing by the use of warrants is an established practice among the school districts of the State of Colorado. Likewise, it can be observed that their use increased during the depression years of the early 1930's. At the end of the school year of 1936, the warrants outstanding were only 6.37 per cent of the total expenditures. This was the lowest point reached since 1905. However, it can generally be expected that even under normal financial conditions, a portion of the operating costs of the schools of the State of Colorado will be financed with short-term loans.

Connecticut.--The amount of money received from short-term loans in the State of Connecticut is shown in Table 6. School

TABLE 5

WARRANTS OUTSTANDING AND TOTAL PUBLIC SCHOOL EXPENDITURES IN COLORADO FROM 1897 TO 1936

Year	Total Expenditures	Warrants	
		Outstanding at End of Year	Per Cent of Total Expenditures
1936	$21,538,623	$1,372,537	6.37
1935	20,934,352	1,966,395	9.39
1934	18,207,547	2,947,486	16.19
1933	19,375,954	3,168,205	16.35
1932	24,441,541	3,251,555	13.30
1931	26,172,931	2,834,095	10.83
1930	26,213,617	2,477,638	9.45
1929	25,157,459	2,759,022	10.97
1928	25,410,667	2,550,329	10.04
1927	24,518,449	2,576,582	10.51
1926	26,888,074	2,667,068	9.92
1925	26,720,801	2,641,238	9.88
1924	23,244,009	3,273,522	14.08
1923	20,867,248	3,442,353	16.50
1922	22,151,541	3,916,874	17.68
1921	20,081,994	3,650,992	18.18
1920	13,231,982	2,223,257	16.80
1919	10,311,247	1,704,659	16.53
1918	9,892,699	1,446,966	14.63
1917	8,592,820	1,077,349	12.54
1916	7,940,174	1,108,155	13.96
1915	7,110,987	1,174,803	16.52
1914	6,941,206	1,349,009	19.43
1913	6,863,748	1,482,481	21.60
1912	6,930,007	1,020,962	14.73
1911	6,158,064	988,911	16.06
1910	5,698,507	1,347,665	23.65
1909	4,578,626	850,737	18.58
1908	4,578,852	620,264	13.55
1907	4,712,166	631,302	13.40
1906	4,486,226	662,292	14.76
1905	4,191,785	138,348	3.30
1904	4,103,639	807,193	19.67
1903	4,101,962	845,111	20.60
1902	3,209,067	797,874	24.86
1901	3,136,643	645,096	20.57
1900	2,894,333	621,356	21.47
1899	2,508,748	597,813	23.83
1898	2,978,207	528,100	17.73
1897	2,338,224	624,800	26.72
Mean	.....	.....	15.63
Range	.....	.....	3.30--26.72

districts in Connecticut have "authority to lay taxes and borrow money." It is evident that borrowing to meet the current costs of operating the schools has never reached a very high point among the school districts as a whole. During the fourteen year period for which the data are available, an average of 2.26 per cent of the total and 2.96 per cent of the current receipts were from short-term loans. The range was from .03 per cent in 1936 to 4.03 per cent of the total receipts in 1932.

TABLE 6

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF CONNECTICUT FROM 1924 TO 1937

Year	Total Receipts	Receipts for Current Expenses	Short-Term Loans		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1937	$30,003,693	$26,896,857	$119,141	0.40	0.44
1936	28,884,077	25,868,423	8,752	0.03	0.03
1935	28,462,783	25,237,933	60,087	0.21	0.24
1934	28,171,120	24,446,335	151,803	0.54	0.62
1933	30,532,369	26,121,597	335,073	1.10	1.28
1932	35,533,077	30,054,994	1,430,298	4.03	4.76
1931	36,673,711	29,443,741	1,279,527	3.49	4.35
1930	37,363,384	28,164,164	777,682	2.08	2.76
1929	34,164,017	26,878,079	1,300,205	3.81	4.84
1928	34,289,202	25,587,119	1,073,325	3.13	4.19
1927	33,177,793	24,503,632	1,159,034	3.49	4.73
1926	33,313,555	23,108,482	1,073,757	3.22	4.65
1925	32,775,671	21,807,670	1,280,392	3.91	5.87
1924	24,695,056	20,198,245	536,823	2.17	2.66
Mean	.....	.....	.....	2.26	2.96
Range	.....	.....	.....	0.03--4.03	0.03--5.87

The range in the current receipts varied from .03 per cent in 1936 to a high point of 5.87 per cent in 1925. The amount of short-term borrowing done since 1932 has been a very small part of the total receipts. While it is apparent that some temporary loans are made annually by the school districts of Connecticut, the average amount has not been so great as to necessitate the expenditure

of large sums for interest each year. Since the height of the depression in 1933, the amount of money borrowed on a short-term basis has been less than .5 per cent annually.

Florida.--School districts in the State of Florida may borrow up to 80 per cent of the current revenue anticipated to be received from the State of Florida, the County School Fund, and legislative appropriations. The amount of short-term borrowing done by the schools during the years 1917 to 1938 inclusive are shown in Table 7. The average yearly receipts from short-term loans during the twenty-two year period covered by the data was 12.35 per cent of the total receipts. The range in the percentage of short-term borrowing was from .33 per cent in 1937 to a high point of 19.5 per cent in 1925.

Illinois.--School boards in the State of Illinois may borrow on tax anticipation warrants to the extent of 75 per cent of the levy pledged for their payment. Where a working cash fund has been set up, such borrowing may be made up to 90 per cent of the levy. The receipts from tax anticipation warrants by the schools of Illinois from 1921 to 1937 inclusive are shown in Table 8. During the seventeen year period represented by the data, the average yearly receipts from tax anticipation warrants were 26.58 per cent of the total receipts of the public schools. The range in the receipts from tax warrants in Illinois is from 6.13 per cent in 1935 to 52.45 per cent in 1930 of the total receipts for public schools.

Indiana.--The receipts from temporary loans by the schools of Indiana are shown in Table 9. School districts may borrow 33.33 per cent of the current tax levy and 75 per cent of the delinquent taxes. It can be observed that the amount of money borrowed to finance the schools for short periods of time has not been as extensive as was the case in Illinois. During the eleven

year period from 1928 to 1938 inclusive represented by the data, the average annual receipts from short-term loans were 2.36 per cent of the total and 2.73 per cent of the current receipts. The range was from .88 per cent of the current expenses in 1933 to 6.12 per cent in 1929.

TABLE 7

RECEIPTS FROM SHORT-TERM LOANS BY THE PUBLIC SCHOOLS OF FLORIDA FROM 1917 TO 1938

Year	Total Receipts	Short-Term Loans	
		Amount Received	Per Cent of Total Receipts
1938	$24,341,958	$448,021	1.84
1937	25,430,192	83,023	0.33
1936	22,403,908	177,863	0.79
1935	18,997,984	862,416	4.54
1934	18,273,905	556,520	3.05
1933	17,789,208	2,714,957	15.26
1932	21,475,819	2,881,212	13.42
1931	21,595,021	2,942,433	13.63
1930	24,576,797	2,561,882	10.42
1929	28,193,517	5,130,543	18.20
1928	37,561,785	6,248,103	16.63
1927	46,000,459	8,448,376	18.37
1926	43,330,045	5,840,767	13.48
1925	21,925,140	4,276,122	19.50
1924	19,646,017	2,882,042	14.67
1923	16,116,579	1,817,836	11.28
1922	16,144,853	2,075,570	12.86
1921	13,010,678	2,401,900	18.46
1920	10,704,402	1,726,187	16.13
1919	7,943,370	1,299,065	16.35
1918	7,934,671	1,533,625	19.33
1917	7,758,212	1,017,394	13.11
Mean. . .	.....	.....	12.35
Range . .	.....	.....	0.13--19.5

Iowa.--Regular school warrants endorsed "not paid for want of funds" form the basis upon which short-term financing is carried on by the schools of Iowa. Table 10 shows the amount of such warrants outstanding at the end of each school year in the state from 1907 to 1936 inclusive. The average yearly amount of warrants outstanding during the thirty year period was 3.69 per cent of the

average yearly expenditures from the general fund. The range was from .59 per cent in 1936 to 9.32 per cent in 1921. It is evident from the data that the amount of warrants outstanding reached the highest point during the depression years of the early 1920's. A slight increase over the average amount was also evident in 1933. The use of warrants is apparently an accepted procedure in financing the educational costs of the public schools of Iowa.

TABLE 8

RECEIPTS FROM TAX ANTICIPATION WARRANTS BY THE SCHOOLS OF ILLINOIS FROM 1921 TO 1937

Year	Total Receipts	Tax Anticipation Warrants	
		Amount Received	Per Cent of Total Receipts
1937	$166,279,984	$12,032,945	7.24
1936	156,030,358	9,728,028	6.23
1935	191,785,299	11,760,996	6.13
1934	144,869,286	15,750,139	10.87
1933	142,807,570	23,464,484	16.43
1932	141,984,201	47,137,655	33.20
1931	210,406,385	50,718,070	24.10
1930	162,524,775	85,251,931	52.45
1929	153,075,096	69,447,201	45.37
1928	164,838,293	53,810,760	32.64
1927	155,671,087	48,554,177	31.19
1926	141,076,960	43,287,231	30.68
1925	138,859,732	37,986,849	27.36
1924	127,572,543	37,236,875	29.19
1923	124,362,023	28,191,563	22.67
1922	111,750,568	54,171,036	48.47
1921	99,041,179	27,451,075	27.72
Mean. . .	.....	.....	26.58
Range . .	.....	.....	6.13--52.45

Louisiana.--School districts in the State of Louisiana may borrow 50 per cent of their anticipated revenue for current operation, and if they have a population in excess of two hundred thousand, the amount of such borrowing may be increased to 75 per cent.

The data recorded in Table 11 indicate the receipts from temporary loans by the schools of Louisiana from 1919 to 1937

inclusive. During the nineteen year period covered by the data, the annual receipts from short-term loans averaged 24.31 per cent of the total and 40.15 per cent of the current receipts. The range in the percentage of the total receipts was from 14.57 per cent in 1937 to 36.79 per cent in 1932. If only the current receipts are considered, the percentage ranges from a low of 19.63 per cent in 1919 to a high of 63.86 per cent in 1932.

TABLE 9

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF INDIANA FROM 1928 TO 1938

Year	Total Receipts	Current Revenue Receipts	Short-Term Loans		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1938	$67,017,346	$58,747,190	$1,813,018	2.71	3.09
1937	62,406,956	55,430,566	1,458,240	2.34	2.63
1936	59,869,721	50,377,240	1,763,615	2.95	3.50
1935	52,783,050	48,660,193	724,550	1.37	1.49
1934	53,986,758	50,122,631	770,433	1.43	1.54
1933	51,761,771	48,055,946	453,422	0.88	0.94
1932	64,392,281	59,494,275	843,332	1.31	1.42
1931	71,840,096	62,046,415	1,455,789	2.03	2.35
1930	91,858,566	82,857,064	1,884,563	2.05	2.27
1929	81,708,040	66,675,041	4,080,720	4.99	6.12
1928	72,208,383	61,222,860	2,850,584	3.95	4.66
Mean	.....	.....	.....	2.36	2.73
Range	.....	.....	.....	0.88-4.99	0.94-6.12

It is evident from the data in Table 11 that considerable use is made of short-term loans by the school districts of the State of Louisiana. The amount of short-term borrowing increased during the depression years of the early 1930's, but it has apparently become established as a necessary practice in the financial administration of the schools.

Maryland.--Short-term borrowing does not enter extensively into the financial operations of the schools of Maryland. The

receipts from short-term loans from 1919 to 1937 inclusive are shown in Table 12. During the nineteen year period covered by the data, the receipts from short-term loans averaged only .44 per cent of the total receipts.

TABLE 10

WARRANTS OUTSTANDING AND TOTAL SCHOOL EXPENDITURES FROM THE GENERAL FUND IN IOWA FROM 1907 TO 1936

Year	Total Expenditures from the General Fund	Warrants	
		Outstanding at End of Year	Per Cent of Total Expenditures
1936	$37,709,489	$221,409	0.59
1935	34,821,895	283,308	0.81
1934	35,218,502	580,887	1.65
1933	37,022,034	1,716,373	4.64
1932	44,429,889	715,767	1.61
1931	48,666,526	807,604	1.66
1930	48,340,248	612,457	1.27
1929	47,836,335	633,218	1.32
1928	47,610,453	672,889	1.41
1927	47,237,217	1,042,147	2.21
1926	46,307,099	1,067,327	2.30
1925	45,444,791	1,267,170	2.79
1924	44,599,788	1,503,943	3.37
1923	44,511,627	2,283,232	5.13
1922	44,953,880	2,619,774	5.83
1921	41,618,613	3,877,391	9.32
1920	31,872,297	1,853,530	5.82
1919	24,527,507	985,632	4.02
1918	22,063,764	532,677	2.41
1917	13,788,318	1,106,450	8.02
1916	12,604,117	657,201	5.21
1915	11,799,559	620,821	5.26
1914	10,983,991	649,815	5.92
1913	10,015,511	510,254	5.09
1912	9,407,416	421,923	4.49
1911	8,898,472	389,793	4.38
1910	8,440,358	246,800	2.92
1909	8,107,815	278,583	3.44
1908	7,757,807	278,771	3.59
1907	7,348,269	309,056	4.21
Mean	.....	.....	3.69
Range	.....	.....	0.59--9.32

TABLE 11

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF LOUISIANA FROM 1919 TO 1937

Year	Total Receipts	Current Revenue Receipts	Short-Term Loans		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1937	$34,051,089	$25,001,219	$4,960,437	14.57	19.84
1936	25,987,028	20,159,398	4,477,134	17.23	22.21
1935	28,040,397	19,832,816	7,104,203	25.34	35.82
1934	27,312,033	19,084,476	7,053,746	25.83	36.96
1933	25,631,927	16,000,061	8,340,258	32.54	52.13
1932	31,060,939	17,893,123	11,426,179	36.79	63.86
1931	34,306,844	20,902,363	10,960,108	31.95	52.43
1930	32,041,505	19,939,398	6,273,064	19.58	31.46
1929	32,329,433	20,420,089	9,306,572	28.79	45.58
1928	32,002,626	19,144,980	7,568,837	23.65	39.53
1927	31,935,735	19,852,957	8,484,080	26.57	42.73
1926	31,074,984	17,764,880	8,309,477	26.74	46.77
1925	33,994,688	17,037,911	8,722,977	25.66	51.20
1924	34,536,007	14,139,081	7,893,268	22.86	55.83
1923	29,582,033	14,940,995	6,983,530	23.61	46.74
1922	25,204,675	14,339,552	5,730,452	22.74	39.96
1921	22,885,129	13,751,331	4,928,527	21.54	35.84
1920	16,471,640	13,245,791	3,225,848	19.58	24.35
1919	11,181,870	9,347,095	1,834,774	16.41	19.63
Mean	.....	.....	.....	24.31	40.15
Range	.....	.....	.....	14.57-36.79	19.63-63.86

Michigan.--School districts in Michigan may borrow 10 per cent of next year's tax levy, 80 per cent of the current year's levy, and 80 per cent on special assessments. The amount of money borrowed through short-term loans negotiated by the schools of Michigan from 1924 to 1937 is shown in Table 13. During the fourteen year period represented by the table, the funds received from temporary loans were an average of 8.5 per cent of the total and 10.23 per cent of the current receipts. The greatest amount of short-term borrowing took place in 1924 when 15.45 per cent of the total and 18.14 per cent of the current receipts were from money secured by temporary obligations. The funds received from short-

term loans were the smallest in 1934 when the amounts were 4.08 per cent and 4.34 per cent respectively.

TABLE 12

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF MARYLAND FROM 1919 TO 1937

Year	Total Receipts	Short-Term Loans	
		Receipts During the Year	Per Cent of Total Receipts
1937	$26,214,393	$24,972	0.09
1936	25,466,797	30,360	.12
1935	24,227,164	30,015	.12
1934	23,176,500	114,752	.50
1933	23,574,995	2,500	.01
1932	27,821,450	90,910	.33
1931	29,473,054	173,859	.60
1930	25,885,480	124,923	.48
1929	23,495,757	137,175	.59
1928	23,333,431	158,542	.68
1927	23,682,644	186,340	.79
1926	23,227,717	69,950	.30
1925	22,727,980	127,750	.56
1924	22,201,889	86,980	.40
1923	19,456,105	39,210	.20
1922	24,364,161	20,667	.09
1921	19,682,158	68,049	.35
1920	8,196,441	101,940	1.24
1919	6,712,223	71,271	1.06
Mean. . . .	.....	.....	0.44
Range . . .	.....	.....	0.01--1.24

Nebraska.--School districts in Nebraska may borrow up to 70 per cent of the unexpended balance of the current tax levy. The amount of warrants outstanding in the rural schools of Nebraska from 1925 to 1938 inclusive is shown in Table 14. During the fourteen year period the warrants outstanding at the end of the year averaged 6.08 per cent of the total rural school expenditures. The range is from 4.08 per cent in 1937 to 8.88 per cent in 1933. The use of warrants as a means of financing part of the operations of the rural schools appears to be a normal practice. No extreme

variation is noted from year to year although the highest point came in the depression year of 1933.

TABLE 13

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF MICHIGAN FROM 1924 TO 1937

Year	Total Receipts	Current Revenue Receipts	Short-Term Loans		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1937	$105,338,974	$95,080,193	$7,873,754	7.47	8.28
1936	104,276,010	92,443,964	8,062,078	7.73	8.72
1935	87,826,232	74,496,663	9,083,062	10.34	12.19
1934	74,656,517	70,103,620	3,045,322	4.08	4.34
1933	79,006,303	66,583,973	10,937,588	13.84	16.43
1932	110,564,023	99,334,822	9,591,780	8.68	9.66
1931	132,064,922	109,134,340	10,397,954	7.87	9.53
1930	135,335,700	108,979,788	11,533,484	8.52	10.58
1929	124,532,837	103,589,735	9,405,755	7.55	9.08
1928	122,145,053	96,578,707	7,568,168	6.20	7.84
1927	117,531,043	90,024,398	10,439,977	8.88	11.60
1926	114,317,462	85,120,418	6,695,832	5.86	7.87
1925	103,003,099	75,083,827	6,758,642	6.56	9.00
1924	81,860,476	69,681,281	12,643,542	15.45	18.14
Mean	.....	.....	.....	8.50	10.23
Range	.....	.....	.....	4.08-15.45	4.34-18.14

New Hampshire.--The statutes of the State of New Hampshire authorize the school boards "to hire money for any purpose."[1] However, the amount of school business conducted by means of short-term borrowing is very small. Table 15 shows the short-term loans paid by the public schools of New Hampshire from 1920 to 1936 inclusive. During the seventeen year period for which complete data are available, the average annual payments for the redemption of short-term loans were only .52 per cent of the total expenditures and .63 per cent of the current expenses. In only two years, 1920 and 1922, were the payments of short-term loans in excess of 1 per

[1] Public Laws of New Hampshire, 1937, chap. 119, sec. 3.

cent of the total public school expenditures.

TABLE 14

WARRANTS OUTSTANDING IN THE RURAL DISTRICTS OF NEBRASKA FROM 1925 TO 1938

Year	Total Expenditures in the Rural Schools	Warrants in Rural Schools	
		Outstanding at the End of Year	Per Cent of Total Expenditures
1938	$4,520,703	$186,442	4.12
1937	4,536,551	184,956	4.08
1936	4,358,996	193,235	4.43
1935	4,202,748	235,026	5.59
1934	4,242,682	288,162	6.79
1933	4,823,113	428,104	8.88
1932	5,907,331	390,094	6.60
1931	6,990,898	383,985	5.48
1930	7,066,176	363,141	5.14
1929	6,983,125	443,666	6.35
1928	6,991,949	472,760	6.76
1927	7,375,896	429,941	5.83
1926	7,634,303	498,543	6.53
1925	7,298,956	621,662	8.52
Mean. . .	.....	.....	6.08
Range . .	.....	.....	4.08--8.88

New Jersey.--Short-term borrowing by the schools of New Jersey reached its highest point in 1925 when 8.76 per cent of the total receipts were from temporary loans. The statutes grant the school officials authority to borrow 50 per cent of the amount appropriated for current expenses, 80 per cent of the current taxes on canal and railroad property, and 80 per cent of the amount due as tuition from other districts. In addition to the above, they may also borrow for a short period of time against a permanent bond issue after it has been approved. In spite of the many provisions for short-term borrowing, the amount actually done is not a large percentage of the total receipts. Table 16 shows the receipts from short-term loans by the public schools of New Jersey from 1915 to 1938 inclusive. During the twenty-four year period covered by the

data in the table, the average annual receipts from short-term loans were 2.76 per cent of the total receipts. The range was from .19 per cent in 1917 to 8.76 per cent in 1925. The receipts from money borrowed on a short-term basis were less in 1938 (.63 per cent) than at any time since 1925.

TABLE 15

SHORT-TERM LOANS PAID BY THE SCHOOLS OF NEW HAMPSHIRE FROM 1920 TO 1936

Year	Total Expenditures	Current Expenditures for the Year	Short-Term Notes		
			Paid During the Year	Per Cent of Total Expend.	Per Cent of Current Expenses
1936	$7,636,907	$5,800,741	$22,233	0.29	0.38
1935	7,073,823	5,738,613	29,039	.41	.51
1934	6,719,578	5,483,275	26,907	.40	.49
1933	6,811,882	5,648,938	4,996	.07	.09
1932	7,712,144	6,129,254	14,035	.18	.23
1931	7,916,773	6,226,310	10,002	.13	.16
1930	7,687,235	6,084,888	13,115	.17	.22
1929	7,432,650	5,981,906	14,454	.19	.24
1928	7,462,875	5,779,024	39,929	.54	.69
1927	7,181,621	5,708,243	20,706	.29	.36
1926	7,384,057	5,544,038	49,193	.67	.89
1925	6,811,131	5,227,650	45,926	.67	.88
1924	6,332,513	5,044,370	39,481	.62	.78
1923	5,538,121	4,732,259	46,726	.84	.99
1922	5,189,141	4,605,223	70,490	1.36	1.53
1921	4,787,257	4,355,782	31,414	.66	.72
1920	3,960,075	3,506,972	56,647	1.43	1.62
Mean	.....	.....	.....	0.52	0.63
Range	.....	.....	.....	0.07-1.43	0.09-1.62

New York.--School districts in the State of New York may borrow in anticipation of the uncollected taxes and state aid for the current fiscal year. The amount of money paid for the redemption of short-term loans by the public schools from 1923 to 1936 inclusive is shown in Table 17. It is evident that during the fourteen year period covered by the data, the annual amount of such payments averaged 1.43 per cent of the total expenditures and

2.06 per cent of the current expenses. The range was from .25 per cent to 2.8 per cent of the total expenditures and from .32 per cent to 4 per cent of the current expenses. It is apparent that short-term borrowing can normally be expected to enter into a portion of the financial operation of the schools, but since 1930 the percentage has been a very small part of the total expenditures.

TABLE 16

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF NEW JERSEY FROM 1915 TO 1938

Year	Total Receipts	Short-Term Loans	
		Receipts for the Year	Per Cent of Total Receipts
1938	$118,343,762	$751,024	0.63
1937	117,121,794	900,729	0.77
1936	115,498,444	2,707,211	2.34
1935	107,665,923	3,312,816	3.08
1934	103,768,835	2,635,499	2.54
1933	102,759,272	3,164,404	3.08
1932	124,124,799	4,372,962	3.52
1931	130,958,175	6,214,246	4.75
1930	139,292,122	7,529,893	5.41
1929	123,845,625	3,817,827	3.08
1928	120,925,846	7,348,949	6.08
1927	113,560,017	6,503,585	5.73
1926	104,386,599	6,772,155	6.49
1925	100,040,666	8,764,471	8.76
1924	86,541,001	492,535	0.57
1923	90,696,132	3,553,699	3.92
1922	75,859,844	1,940,951	2.56
1921	63,059,877	913,847	1.45
1920	47,404,510	94,200	0.20
1919	35,887,508	114,977	0.32
1918	32,139,987	86,412	0.27
1917	31,830,541	61,638	0.19
1916	30,254,365	72,236	0.24
1915	27,625,658	57,153	0.21
Mean. . .	.....	.....	2.76
Range . .	.....	.....	0.19--8.76

North Carolina.--The data on the use of short-term borrowing by the schools of North Carolina are shown in Tables 18 and 19.

It is evident that considerable use has been made of the authority to borrow money on short-term loans to operate the schools of the state. Short-term borrowing is permitted to the extent of providing funds sufficient to run a six-months school. The receipts from short-term loans, the total receipts, and the current receipts from 1915 to 1937 inclusive are shown in Table 18. During the twenty-three year period, the average annual receipts from short-term loans were 12.39 per cent of the total receipts and 19.64 per cent of the current receipts for public school purposes. The range in the receipts from short-term loans was from 2.44 per cent in 1936 to 21.68 per cent in 1921.

TABLE 17

SHORT-TERM LOANS PAID BY THE SCHOOLS OF NEW YORK FROM 1923 TO 1936

Year	Total Expenditures	Current Expenses	Short-Term Loans		
			Paid During the Year	Per Cent of Total Expend.	Per Cent Current Expenses
1936	$351,822,915	$271,779,669	$875,374	0.25	0.32
1935	329,178,732	260,020,374	1,292,495	0.39	0.50
1934	315,187,955	254,345,336	1,140,308	0.36	0.45
1933	343,455,306	265,520,638	1,089,321	0.32	0.41
1932	377,281,957	278,917,370	1,567,561	0.42	0.56
1931	361,850,216	266,969,038	1,283,765	0.35	0.48
1930	391,417,287	259,483,424	9,165,908	2.34	3.53
1929	376,071,512	244,684,859	8,189,095	2.18	3.35
1928	324,405,895	223,542,544	7,672,252	2.37	3.43
1927	294,312,333	206,228,052	8,240,069	2.80	4.00
1926	257,672,042	187,872,833	6,157,157	2.39	3.28
1925	283,506,175	179,719,858	5,438,134	1.92	3.03
1924	250,553,766	171,323,360	4,501,176	1.80	2.63
1923	210,563,601	159,712,358	4,537,819	2.16	2.84
Mean	.....	.....	.....	1.43	2.06
Range	.....	.....	.....	0.25—2.8	0.32--4.0

The amount of money paid for the redemption of short-term loans is shown in Table 19. During the twenty-three year period from 1915 to 1937 inclusive, the annual short-term loans paid

averaged 11.83 per cent of the total expenditures and 20.28 per cent of the current expenses. The range in total expenditures was from 1.21 per cent in 1937 to 19.42 per cent in 1927 while in the current expenses the range was from 1.87 per cent in 1937 to 38.68 per cent in 1927. It is evident from the data that there has been a sharp decline in the amount of payments made for the redemption of short-term loans since 1932.

TABLE 18

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF NORTH CAROLINA FROM 1915 TO 1937

Year	Total Receipts	Current Receipts	Short-Term Loans		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1937	$39,698,635	$25,698,461	$1,269,377	3.20	4.94
1936	36,303,955	24,327,162	887,067	2.44	3.63
1935	31,341,349	20,283,467	824,143	2.63	4.06
1934	27,247,335	19,114,944	878,765	3.23	4.10
1933	30,485,454	23,134,672	1,250,549	4.10	5.41
1932	36,341,715	24,358,030	3,386,107	9.32	13.90
1931	45,517,414	27,407,368	7,912,115	17.38	28.87
1930	48,872,866	33,046,638	7,536,791	15.42	22.81
1929	52,870,318	33,171,529	9,513,916	17.99	28.68
1928	53,949,866	31,853,891	10,815,988	20.05	33.95
1927	54,000,249	26,515,475	10,350,219	19.17	39.03
1926	45,208,252	27,667,148	8,631,170	19.09	31.20
1925	42.955,330	26,712,990	7,649,142	17.81	28.63
1924	41,443,315	23,919,613	6,974,427	16.83	29.16
1923	34,741,036	19,565,186	5,159,241	14.85	26.37
1922	30,149,855	18,298,324	4,678,820	15.52	25.57
1921	21,267,400	13,176,243	4,610,796	21.68	34.99
1920	15,066,486	11,496,893	1,415,508	9.40	12.31
1919	8,324,045	6,987,867	812,865	9.77	11.63
1918	7,987,994	6,052,710	761,988	9.55	12.59
1917	7,904,372	5,502,739	1,074,587	13.59	19.53
1916	7,272,887	5,356,176	826,367	11.36	15.43
1915	6,445,323	4,725,959	680,020	10.55	14.39
Mean	.....	.....	.....	12.39	19.64
Range	.....	.....	.....	2.44-21.68	3.63-39.03

North Dakota.--Warrants and certificates of indebtedness are issued by the boards of education in the State of North Dakota

in order to finance the schools when cash is not on hand. All taxes for the current and four preceding years may be pledged for the payment of funds so borrowed. The amount of such obligations outstanding at the end of the year from 1919 to 1938 inclusive is shown in Table 20. During the twenty year period covered by the data, the warrants and certificates of indebtedness outstanding annually averaged 21 per cent of the total expenditures. The range was from 8.67 per cent in 1927 to 50.53 per cent in 1922. It is evident that their use is a normal procedure in the financial operation of the schools. However, the amount of such obligations outstanding tends to increase considerably during economic depressions.

Oregon.--School districts in the State of Oregon may issue warrants directly to their debtors or sell them to banking institutions at par, plus accrued interest. The data in Table 21 show the amount of warrants outstanding in the school districts of Oregon from 1920 to 1938 inclusive. During the nineteen year period covered by the data, the annual amount of warrants outstanding averaged 14.46 per cent of the total expenditures. The range was from 6.55 per cent in 1938 to 43.85 per cent in 1933. It is evident from the data that the amount of unredeemed warrants reached its highest point during the depression year of 1933. However, the schools are financed partly with short-term warrants under normal economic conditions. It can be observed that there has been a marked decrease in the amount of warrants outstanding in recent years, and in 1938 the obligations of such a nature which were unpaid reached the lowest point (6.55 per cent) of any year for which complete data is available.

Pennsylvania.--Table 22 shows the amount of short-term loans paid in the schools of the State of Pennsylvania from 1921

to 1936 inclusive. During the sixteen year period represented by the data, the funds paid annually for the redemption of the temporary loans averaged 6.82 per cent of the current expenditures. The range in the total expenditures was from 3.38 per cent to 13.7 per cent, and in the current expenses the range was 5.13 per cent to 19.5 per cent. It is evident that normally the school districts of the state must do some borrowing each year. It is also evident that the depression years of the early 1930's necessitated a slight increase in the amount of short-term financing done.

TABLE 19

SHORT-TERM LOANS PAID BY THE SCHOOLS OF NORTH CAROLINA FROM 1915 TO 1937

Year	Total Expenditures	Current Expenses	Short-Term Loans		
			Paid During the Year	Per Cent of Total Expend.	Per Cent Current Expenses
1937	$39,427,860	$25,550,073	$478,307	1.21	1.87
1936	34,972,391	23,623,040	589,851	1.69	2.50
1935	29,577,297	19,254,098	779,447	2.64	4.05
1934	25,958,768	18,296,363	1,078,215	4.15	5.89
1933	30,282,221	23,464,315	1,369,710	4.52	5.84
1932	35,848,426	24,049,617	4,343,948	12.12	18.06
1931	44,792,306	28,515,583	6,604,101	14.74	23.16
1930	45,568,502	28,616,603	6,332,156	13.90	22.13
1929	50,155,982	27,961,531	8,838,614	17.62	31.61
1928	49,340,395	26,580,686	8,832,722	17.90	33.23
1927	50,923,520	25,565,974	9,890,085	19.42	38.68
1926	43,810,599	22,822,833	7,586,264	17.32	33.24
1925	44,415,864	21,030,810	7,367,006	16.59	35.03
1924	39,152,173	19,078,656	7,325,112	18.71	38.39
1923	35,682,543	17,251,486	4,542,898	12.73	26.33
1922	27,110,039	15,530,808	4,392,867	16.20	28.28
1921	20,707,727	13,472,275	2,745,836	13.26	20.38
1920	13,941,103	9,568,743	1,365,410	9.79	14.27
1919	8,157,931	5,850,128	1,064,948	13.05	18.20
1918	7,522,372	5,247,615	807,935	10.74	15.40
1917	7,421,954	4,829,050	955,567	12.87	19.79
1916	6,561,646	4,571,533	859,347	13.10	18.80
1915	6,132,213	4,215,178	478,608	7.80	11.35
Mean	.....	.....	.....	11.83	20.28
Range	.....	.....	.....	1.21-19.42	1.87-38.68

TABLE 20

SCHOOL WARRANTS AND CERTIFICATES OF INDEBTEDNESS OUTSTANDING IN NORTH DAKOTA FROM 1919 TO 1938

Year	Total Expenditures	Warrants and Certificates of Indebtedness	
		Outstanding at End of Year	Per Cent of Total Expenditures
1938	$9,853,799	$2,861,948	29.04
1937	10,143,403	2,552,480	25.16
1936	10,577,254	1,849,521	17.49
1935	9,898,171	2,239,729	22.63
1934	9,241,359	2,421,404	26.20
1933	10,232,757	2,616,962	25.57
1932	13,835,127	2,034,230	14.70
1931	15,881,230	1,958,567	12.33
1930	16,264,426	1,572,085	9.67
1929	15,728,561	1,400,675	8.91
1928	15,604,082	1,496,844	9.59
1927	17,474,309	1,514,469	8.67
1926	15,664,211	1,665,758	10.63
1925	17,167,062	2,267,626	13.21
1924	19,623,835	3,644,151	18.57
1923	18,963,399	5,473,411	28.86
1922	14,520,410	7,337,678	50.53
1921	13,277,523	6,468,793	48.72
1920	12,716,526	3,043,342	23.93
1919	9,919,794	2,545,220	25.66
Mean. . .	.....	.....	21.00
Range . .	.....	.....	8.67--50.53

The amount of warrants outstanding at the end of the year in the schools of Pennsylvania from 1926 to 1936 inclusive is shown in Table 23. The annual average amount of unredeemed warrants was 6.39 per cent of the total expenditures and 9.18 per cent of the current expenses. It is evident from the data that the largest amount was outstanding at the end of the depression year of 1933.

South Dakota.--Regular school warrants endorsed "not paid for want of funds" form the basis upon which short-term financing is done by the public schools of South Dakota. Complete data are available on the amount of such outstanding warrants ever since

South Dakota became a state.

TABLE 21

SCHOOL WARRANTS OUTSTANDING IN OREGON FROM 1920 TO 1938

Year	Total Expenditures	Warrants	
		Outstanding at End of Year	Per Cent of Total Expenditures
1938	$17,663,161	$1,157,170	6.55
1937	16,602,189	1,466,438	8.83
1936	15,938,338	2,055,046	12.89
1935	14,070,977	3,023,092	21.48
1934	13,149,384	3,353,935	25.51
1933	13,799,564	6,051,427	43,85
1932	18,127,754	4,395,388	24.25
1931	19,353,435	2,413,479	12.47
1930	20,394,443	2,255,037	11.06
1929	23,208,073	2,654,818	11.44
1928	22,061,996	2,392,081	10.84
1927	21,269,515	2,401,389	11.29
1926	21,658,147	2,230,789	10.30
1925	20,393,396	1,662,253	8.15
1924	19,119,271	1,927,891	10.08
1923	17,060,151	1,913,790	11.22
1922	16,587,696	1,803,762	10.87
1921	14,783,718	1,948,265	13.18
1920	11,217,385	1,173,560	10.46
Mean. . .	.....	.....	14.46
Range . .	.....	.....	6.55--43.85

It is apparent from Table 24 that the use of warrants as a method of financing schools when there is no cash on hand has been an established practice for the past forty-nine years. During the period from 1890 to 1938 inclusive, the annual amount of outstanding warrants averaged 17.86 per cent of the total expenditures. The range was from a low of 5.71 per cent in 1893 to a high of 29.09 per cent in 1911. It is evident that there was an increase in the amount of warrants unredeemed during the depression years of the early 1930's, but the fact that the average has remained at approximately 18 per cent for such a long period of time indicates that the school districts have never been able to

substantially reduce or eliminate their outstanding short-term obligations.

TABLE 22

SHORT-TERM LOANS PAID BY THE SCHOOLS OF PENNSYLVANIA FROM 1921 TO 1936

Year	Total Expenditures	Current Expenses	Short-Term Loans		
			Paid During the Year	Per Cent of Total Expenditures	Per Cent of Current Expenses
1936	$187,578,958	$138,280,781	$13,303,503	7.09	9.62
1935	176,324,882	131,799,169	13,964,242	7.92	10.60
1934	183,679,406	131,745,605	17,592,714	9.58	13.35
1933	188,126,316	137,039,068	10,231,516	5.44	7.47
1932	210,797,545	148,792,253	11,833,895	5.61	7.95
1931	215,426,010	148,607,459	11,385,396	5.29	7.66
1930	212,113,813	144,734,533	11,304,158	5.33	7.81
1929	211,789,815	140,256,285	10,883,472	5.12	7.72
1928	202,696,231	134,010,492	9,613,803	4.74	7.17
1927	193,990,728	126,255,294	9,269,666	4.78	7.34
1926	185,408,335	121,640,870	10,122,208	5.46	8.32
1925	178,083,741	117,604,006	9,709,923	5.45	8.26
1924	166,632,841	109,794,534	5,634,372	3.38	5.13
1923	152,031,654	100,546,704	15,454,400	10.17	15.37
1922	129,344,699	90,889,655	17,725,190	13.70	19.50
1921	111,459,798	82,040,641	11,262,751	10.10	13.73
Mean	.....	.....	.....	6.82	9.87
Range	.....	.....	.....	3.38-13.70	5.13-19.50

Provision for a greater amount of state support for the public schools of South Dakota was recommended by the State Superintendent of Schools, J. F. Hines, in his report to the governor in 1938 as a means of eliminating such extensive use of warrants and equalizing educational opportunities. The following quotation is taken from this report.

> During the years of the depression it has become increasingly evident that our state, as well as almost all other states, has been brought face to face with the question of state support for public education. Great progress has been made in debt reduction and in lowering the number of districts on a registered warrant basis. Unfortunately, this was done too much through the adoption of budgets that seriously affected the efficiency of our

schools. It is reflected by the low salaries paid teachers and the lack of adequate equipment in many schools. These conditions have forced many of our best trained teachers to seek employment in other fields. School boards are willing to meet the situation but are unable to do so because of financial conditions. In my opinion the state must take definite steps toward a policy of equalizing educational opportunity.

These problems cannot be considered temporary. Many districts have operated on a registered warrant basis since they were first organized. At no time have they had a valuation sufficient to offer a minimum school program without slipping further and further into debt.[1]

TABLE 23

SHORT-TERM LOANS OUTSTANDING IN THE SCHOOL DISTRICTS OF PENNSYLVANIA FROM 1926 TO 1936

Year	Total Expenditures	Current Expenses	Short-Term Loans		
			Outstand-at End of Year	Per Cent of Total Expendi-tures	Per Cent of Current Expenses
1936	$187,578,958	$138,280,781	$13,304,204	7.09	9.62
1935	176,324,882	131,799,169	12,044,153	6.83	9.14
1934	183,679,406	131,745,605	13,531,727	7.37	10.27
1933	188,126,316	137,039,068	16,413,357	8.72	11.98
1932	210,797,545	148,792,253	12,542,375	5.86	8.30
1931	215,426,010	148,607,459	12,887,053	5.98	8.67
1930	212,113,813	144,734,533	11,853,499	5.59	8.19
1929	211,789,815	140,256,285	11,403,686	5.38	8.13
1928	202,696,231	134,010,492	11,551,346	5.70	8.62
1927	193,990,728	126,255,294	11,238,328	5.79	8.90
1926	185,408,335	121,640,870	11,106,271	5.99	9.13
Mean	.....	.....	.....	6.39	9.18
Range	.....	.....	.....	5.38-8.72	8.13-11.98

Complete date are available on the warrants redeemed by the school districts of South Dakota from 1905 to 1938 inclusive. From the data presented in Table 25, it is evident that the annual payments for the redemption of warrants averaged 11.86 per cent of

[1] J. F. Hines, Twenty-fourth Biennial Report of the Superintendent of Public Instruction of the State of South Dakota, July 1, 1936, to June 30, 1938, p. 5. Pierre, S. Dak.: State Publishing Co., 1938.

TABLE 24

SCHOOL WARRANTS OUTSTANDING IN SOUTH DAKOTA FROM 1890 TO 1938

Year	Total Expenditures	Warrants	
		Outstanding at End of Year	Per Cent of Total Expenditures
1938	$15,153,684	$2,339,473	15.44
1937	15,474,166	2,226,943	14.39
1936	15,118,987	2,569,110	16.99
1935	14,151,294	2,985,260	21.10
1934	13,022,311	3,629,018	27.87
1933	14,230,338	4,072,616	28.62
1932	17,725,340	3,615,356	20.40
1931	18,994,045	3,489,718	18.37
1930	19,213,610	3,408,197	17.74
1929	18,980,614	3,338,193	17.59
1928	18,274,766	3,166,224	17.33
1927	17,885,299	3,331,623	18.63
1926	18,436,263	3,374,261	18.30
1925	17,736,946	3,346,637	18.87
1924	18,425,309	3,499,092	18.99
1923	18,237,048	3,270,364	17.93
1922	18,192,949	3,498,526	19.23
1921	15,954,924	3,466,690	21.73
1920	11,620,117	2,047,913	17.62
1919	7,731,779	1,349,663	17.46
1918	7,863,316	1,387,915	17.65
1917	6,764,693	1,123,733	16.61
1916	6,552,577	1,016,193	15.51
1915	5,953,091	1,115,598	18.74
1914	5,413,063	1,221,898	22.57
1913	5,189,803	1,116,204	21.51
1912	4,984,327	1,029,761	20.66
1911	4,635,568	1,348,701	29.09
1910	4,068,012	854,836	21.01
1909	3,749,259	820,247	21.88
1908	3,152,006	827,467	26.25
1907	2,800,613	640,106	22.86
1906	2,711,570	654,445	24.14
1905	2,488,408	613,857	24.67
1904	2,350,337	493,079	20.95
1903	2,250,857	395,799	17.58
1902	1,990,902	326,477	16.40
1901	1,823,805	337,553	18.51
1900	1,732,160	126,982	7.33
1899	2,258,999	234,712	10.39
1898	1,729,462	114,716	6.63
1897	1,604,001	156,902	9.78
1896	1,688,433	165,572	9.81
1895	1,502,343	171,383	11.41
1894	1,723,505	109,884	6.38
1893	1,674,025	95,547	5.71
1892	1,428,634	122,967	8.61
1891	1,035,299	185,715	17.94
1890	965,866	193,602	20.04
Mean. . .	.....	.....	17.86
Range . .	.....	.....	5.71--29.09

TABLE 25

SCHOOL WARRANTS PAID BY THE SCHOOLS OF SOUTH DAKOTA FROM 1905 TO 1938

Year	Total Expenditures	Warrants	
		Paid During the Year	Per Cent of Total Expenditures
1938	$15,153,684	$1,284,693	8.48
1937	15,474,166	1,394,912	9.01
1936	15,118,987	1,738,595	11.50
1935	14,151,294	1,951,729	13.79
1934	13,022,311	2,089,931	16.05
1933	14,230,338	1,774,833	12.47
1932	17,725,340	1,981,988	11.18
1931	18,994,045	2,095,984	11.03
1930	19,213,610	2,296,103	11.95
1929	18,980,614	1,959,452	10.32
1928	18,274,766	1,986,972	10.87
1927	17,885,299	2,147,771	12.01
1926	18,436,263	2,156,667	11.70
1925	17,736,946	2,212,853	12.48
1924	18,425,309	2,122,732	11.52
1923	18,237,048	2,644,967	14.50
1922	18,192,949	2,515,519	13.83
1921	15,954,924	1,404,665	8.80
1920	11,620,117	940,899	8.10
1919	7,731,779	796,506	10.30
1918	7,863,316	686,037	8.72
1917	6,764,693	571,091	8.44
1916	6,552,577	705,263	10.76
1915	5,953,091	751,742	12.63
1914	5,413,063	788,018	14.56
1913	5,189,803	691,503	13.32
1912	4,984,327	792,018	15.89
1911	4,635,568	672,769	14.51
1910	4,068,012	626,659	15.40
1909	3,749,259	681,106	18.17
1908	3,152,006	354,859	11.26
1907	2,800,613	369,105	13.18
1906	2,711,570	280,182	10.33
1905	2,488,408	209,335	8.41
Mean	.....	.....	11.86
Range	.....	.....	8.10--18.17

the total expenditures. The range was from 8.10 per cent in 1920 to 18.17 per cent in 1909.

Tennessee.--School districts in Tennessee may not borrow in excess of the balance due from the school budget approved by the Quarterly County Court. The receipts from short-term loans, notes, and warrants by the school districts of Tennessee are shown in Table 26. During the ten year period from 1929 to 1938 inclusive, the annual amount of money borrowed on a short-term basis averaged 5.37 per cent of the total receipts. The range was from 1.36 per cent in 1938 to 12.63 per cent in 1935. Such borrowing is limited to the balance due the items of the budget for the scholastic year which it covers.

TABLE 26

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF TENNESSEE FROM 1929 TO 1938

Year	Total Receipts	Short-Term Loans, Notes, and Warrants	
		Received During the Year	Per Cent of Total Receipts
1938	$26,269,178	$357,247	1.36
1937	22,376,983	532,678	2.38
1936	26,057,689	1,002,239	3.85
1935	21,514,775	2,716,737	12.63
1934	29,749,886	904,694	3.04
1933	18,344,287	1,147,085	6.25
1932	27,782,740	2,172,761	7.82
1931	27,991,058	1,306,142	4.67
1930	23,423,081	1,289,044	5.50
1929	25,450,868	1,565,840	6.15
Mean. . .	.....	.....	5.37
Range . .	.....	.....	1.36--12.63

Utah.--School districts in the State of Utah may borrow up to 100 per cent of the tax levy for the current year. This is a very liberal extension of short-term borrowing power, but the actual use of it has been very small. The receipts from short-term

loans in the schools of the state from 1927 to 1938 inclusive are shown in Table 27. During the twelve year period covered by the data the average annual receipts from such loans were 2.56 per cent of the total and 2.87 per cent of the current receipts. The greatest amount of short-term borrowing was done in 1932 when 7.71 per cent of the total receipts were from short-term loans.

TABLE 27

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF UTAH FROM 1927 TO 1938

Year	Total Receipts	Current Receipts	Short-Term Loans		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1938 . .	$11,539,585	$11,050,892	$104,362	0.90	0.94
1937 . .	11,842,996	10,747,952	156,755	1.32	1.46
1936 . .	11,387,742	9,912,010	180,031	1.58	1.82
1935 . .	11,524,391	9,610,223	100,987	0.88	1.05
1934 . .	9,722,620	9,069,249	111,397	1.15	1.23
1933 . .	9,478,732	8,362,343	569,495	6.01	6.81
1932 . .	10,480,172	9,297,268	807,986	7.71	8.69
1931 . .	11,919,431	11,172,895	530,373	4.45	4.75
1930 . .	13,452,396	11,128,179	308,117	2.29	2.77
1929 . .	12,301,064	10,806,056	146,116	1.19	1.35
1928 . .	11,507,714	10,736,961	188,576	1.64	1.76
1927 . .	11,376,816	10,566,560	191,264	1.68	1.81
Mean .	.....	.....	.....	2.56	2.87
Range.	.....	.....	.....	0.88-7.71	0.94-8.69

Virginia.--School boards in the State of Virginia may borrow up to 50 per cent of the tax levy for the current year and 50 per cent of the cash appropriation made to the district for the preceding year. The receipts from short-term loans in Virginia from 1920 to 1937 inclusive are shown in Table 28. Borrowing for a short period of time is a normal procedure in conducting the school business. During the eighteen year period covered by the data, the ayerage annual receipts from short-term loans were 5.02 per cent of the total receipts. The range was from 2.37 per cent

in 1933 to 9.56 per cent in 1921. Although the amount borrowed during the depression of the early 1920's was above the average, there was no marked increase during the depression years of the early 1930's.

TABLE 28

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF VIRGINIA FROM 1920 TO 1937

Year	Total Receipts	Short-Term Loans	
		Amount Received	Per Cent of Total Receipts
1937	$26,154,183	$712,557	2.72
1936	24,233,608	1,103,879	4.56
1935	22,746,342	717,023	3.15
1934	21,007,320	607,941	2.89
1933	21,634,341	513,639	2.37
1932	24,201,509	803,430	3.32
1931	25,613,762	832,122	3.25
1930	25,246,924	998,380	3.95
1929	25,185,476	797,780	3.17
1928	23,467,471	901,827	3.84
1927	23,494,824	906,318	3.86
1926	23,800,463	1,318,254	5.54
1925	23,004,488	1,297,266	5.64
1924	23,055,698	1,773,253	7.69
1923	21,442,789	2,026,430	9.45
1922	21,570,205	1,687,655	7.82
1921	16,228,032	1,551,085	9.56
1920	12,815,214	965,844	7.54
Mean. . .	.....	.....	5.02
Range . .	.....	.....	2.37--9.56

Washington.--The amount of warrants outstanding in the school districts of the State of Washington from 1891 to 1936 inclusive is recorded in Table 29. During the forty-six year period covered by the data, the annual amount of outstanding warrants averaged 31.17 per cent of the total expenditures and 43.35 per cent of the current expenses. The range in the total expenditures was from 8.46 per cent in 1936 to 109.73 per cent in 1895 while in the current expenses the range is from 9.79 per cent in 1936 to 159.49 per cent in 1895.

TABLE 29

SCHOOL WARRANTS OUTSTANDING IN WASHINGTON FROM 1891 TO 1936

Year	Total Expenditures	Current Expenses	Short-Term Loans		
			Outstanding at End of Year	Per Cent of Total Expenditures	Per Cent of Current Expenses
1936	$27,026,735	$23,333,710	$2,285,144	8.46	9.79
1935	23,254,706	20,529,269	3,106,585	13.36	15.13
1934	21,814,719	19,401,523	5,598,272	25.66	28.85
1933	24,065,701	21,739,160	9,801,274	40.73	50.52
1932	30,432,384	26,377,735	8,781,458	28.86	40.39
1931	33,546,029	28,067,303	5,433,460	16.20	19.20
1930	33,253,779	27,694,802	3,026,593	9.10	10.93
1929	33,306,832	27,269,742	3,005,785	9.02	11.02
1928	32,265,850	26,237,518	2,783,527	8.63	10.61
1927	31,214,225	25,150,786	2,833,128	9.08	11.26
1926	30,485,473	24,325,053	3,025,659	9.92	12.44
1925	28,554,432	23,195,876	3,329,331	11.66	14.35
1924	27,134,474	22,490,269	3,658,634	13.48	16.27
1923	27,038,096	21,853,629	3,815,866	14.11	17.46
1922	28,571,968	22,057,549	4,737,520	16.58	21.48
1921	28,489,927	22,560,545	5,285,173	18.55	23.43
1920	20,789,843	16,950,004	2,235,113	10.75	13.19
1919	15,759,512	13,531,556	2,353,018	14.93	17.39
1918	15,189,030	12,017,339	1,661,684	10.94	13.83
1917	14,123,824	11,136,046	1,544,859	10.94	13.87
1916	13,080,271	10,537,665	1,779,730	13.61	16.89
1915	13,351,723	10,695,910	2,254,800	16.89	21.08
1914	13,202,389	9,876,627	2,202,738	16.68	22.30
1913	12,598,443	9,134,289	2,123,642	16.86	23.25
1912	10,475,974	8,420,037	1,914,841	18.28	22.74
1911	10,813,501	7,656,059	2,797,028	25.87	36.53
1910	10,022,830	6,740,531	2,828,225	28.22	41.96
1909	8,318,855	5,744,209	2,948,419	35.44	51.33
1908	6,582,659	4,409,436	3,212,856	48.81	72.86
1907	5,291,342	3,801,212	2,204,947	41.67	58.01
1906	4,670,811	3,342,866	2,201,528	47.13	65.86
1905	4,185,729	2,793,832	2,017,862	48.21	72.23
1904	3,917,463	2,754,738	1,659,603	42.36	60.25
1903	3,518,205	2,351,516	1,415,080	40.22	60.18
1902	2,775,160	1,945,360	1,299,365	46.82	66.79
1901	2,231,703	1,710,296	1,053,572	47.21	61.60
1900	2,364,089	1,735,982	910,595	38.52	52.45
1899	1,774,984	1,296,089	1,098,394	61.88	84.75
1898	1,794,626	1,340,586	997,056	55.56	74.37
1897	1,185,941	959,483	1,297,153	109.38	135.19
1896	1,423,056	1,015,860	1,189,759	83.61	117.12
1895	1,165,907	802,122	1,279,338	109.73	159.49
1894	1,523,650	927,611	1,026,098	67.34	110.62
1893	1,914,958	1,225,346	657,843	34.35	53.69
1892	2,391,093	1,260,439	419,584	17.55	33.29
1891	2,095,310	913,967	435,656	29.79	47.67
Mean	.....	.....	.....	31.17	43.35
Range	.....	.....	.....	8.46-109.73	9.79-159.49

It is apparent that warrants have been more extensively used by the schools of Washington than any other state. Likewise, it has never been possible to redeem all of the outstanding warrants, and in two years, 1895 and 1897, the amount of unpaid warrants was more than the total expenditures. This condition exists because such a large portion of unredeemed warrants are often carried over from preceding years.

The depression years of the early 1930's increased the amount of outstanding warrants very noticeably. The high point was reached in 1933 when the amount of such unpaid obligations was 40.73 per cent of the total expenditures and 50.52 per cent of the current expenses of the public schools during that year. As far as outstanding warrants are concerned, the schools of Washington were in better financial condition in 1936 than at any time during the forty-six years represented by the data.

Wisconsin.--School boards in the State of Wisconsin may borrow to the extent of 50 per cent of the estimated receipts as certified by the State Superintendent of Schools and the local school clerk. In Table 30 the data indicate the receipts from short-term loans from 1917 to 1938 inclusive in the schools of Wisconsin. During the twenty-two year period recorded, the annual receipts from short-term loans averaged 7.95 per cent of the total receipts. The range was from 1.42 per cent in 1935 to 15.23 per cent in 1921. A marked decrease is evident in recent years as compared to the short-term loans negotiated during the early years for which data is available.

TABLE 30

RECEIPTS FROM SHORT-TERM LOANS BY THE SCHOOLS OF WISCONSIN FROM 1917 TO 1938

Year	Total Receipts	Short-Term Loans	
		Amount Received	Per Cent of Total Receipts
1938	$50,027,691	$1,912,184	3.82
1937	47,101,774	1,856,909	3.94
1936	43,838,639	1,059,425	2.42
1935	42,721,183	606,149	1.42
1934	44,488,090	1,509,527	3.39
1933	40,300,614	2,526,484	6.27
1932	53,815,216	2,566,933	4.77
1931	55,756,775	3,068,785	5.50
1930	56,164,472	3,429,443	6.11
1929	57,075,481	3,793,010	6.65
1928	53,478,834	4,182,990	7.82
1927	58,805,191	4,188,639	7.12
1926	50,508,939	4,206,037	8.33
1925	49,946,584	4,417,626	8.84
1924	48,158,191	5,081,507	10.55
1923	47,779,350	5,889,177	12.33
1922	47,938,378	6,322,157	13.19
1921	42,339,799	6,448,745	15.23
1920	33,808,455	4,002,979	11.84
1919	25,523,860	2,530,259	9.91
1918	19,867,112	2,758,804	13.89
1917	19,750,948	2,299,772	11.64
Mean	.....	.....	7.95
Range	.....	.....	1.42--15.23

CHAPTER V

CONDITIONS UNDERLYING SHORT-TERM BORROWING IN FINANCING THE SCHOOLS

General Factors

A study of the financial statements of public schools indicates that the actual short-term borrowing practices tend to group themselves into several rather definite patterns. These patterns can best be illustrated by a series of graphs which reveal that some relationship exists between state aid and school borrowing, that short-term borrowing tends to be influenced somewhat by the general economic conditions at any given time, and that short-term borrowing is a normal procedure in conducting school business. While it cannot be established that the facts herein given are the sole bases for the variance in short-term financing, the definiteness with which certain trends are revealed by the graphs leads one to conclude that the factors indicated are quite positive in the influence which they exert.

Short-Term Loans and State Aid

Since the depression years of the early 1930's, the schools have given considerable attention to the matter of securing additional financial support from sources other than the local school tax levy. Legislative appropriations in the form of "state aid" have been one of the chief means of obtaining this additional revenue. Distribution of these funds is made on the basis of attendance, enrollment, teaching unit, or some other convenient administrative device. Just what relationship exists between state aid

and short-term borrowing can best be observed by studying these trends in the public schools of several states.

Florida.--The relationship between the receipts from short-term loans and from state aid in Florida from 1917 to 1938 inclusive is shown in Figure 1. It can be noted that for a period of fifteen years the receipts from both sources were fairly constant. However, when the receipts from state aid began to increase in comparison to school costs, the receipts from short-term loans began to decrease. In 1936 approximately 51 per cent of the total school receipts of Florida were from state aid and only about 1 per cent from short-term loans. In contrast to this we note that in 1925 the money received from state aid was only 3 per cent and the amount from short-term loans was 20 per cent of the total receipts. It is apparent then that as state aid increased in Florida the necessity for short-term borrowing decreased. The lowest point was reached in 1937.

Table 31 shows that during the years 1917 to 1938 inclusive the revenue from state aid averaged 15.94 per cent of all the income for the public schools of Florida. The receipts from state aid ranged from 1.73 per cent in 1926 to 50.54 per cent in 1936. It is evident from the table that the amount of money borrowed on a short-term basis has decreased consistently while the receipts from state aid have increased.

It is evident that under the present financial set-up, short-term borrowing by the public schools of Florida has practically disappeared. While the future financial problems cannot be definitely predicted, it appears probable that with the amount of state aid remaining the same, there should be little need for such extensive short-term borrowing by the schools of Florida as was formerly carried on. It should be remembered that money "borrowed"

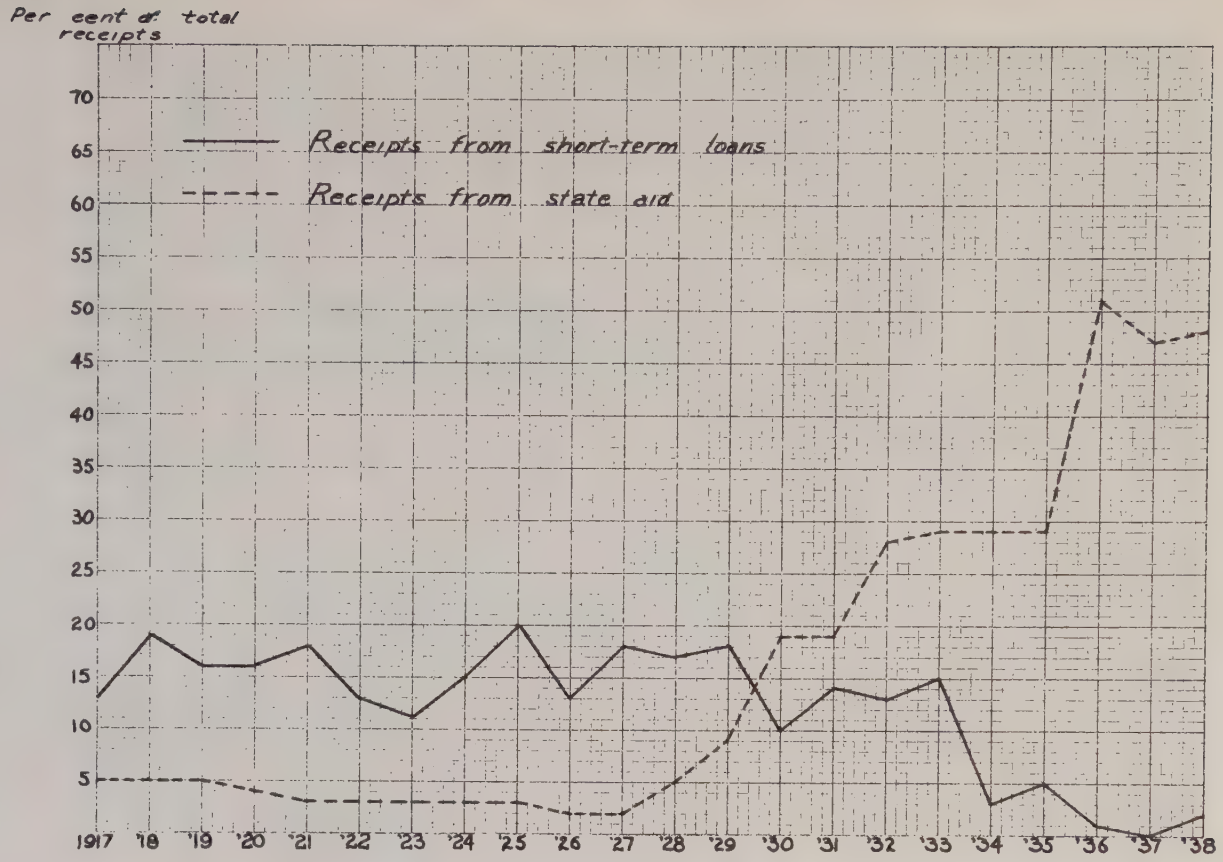

Fig. 1.--Percentage of total receipts derived from short-term loans and from state aid by the schools of Florida from 1917 to 1938.

by the schools must be repaid whether it is on a short-term or a long-term basis. In Florida the schools may borrow up to 80 per cent of the revenue reasonably expected to be received from state funds and from local tax levy. Consequently prompt and adequate payments of state aid will tend to reduce the amount of borrowing necessary as well as reduce the amount of money paid for interest on such short-term loans.

TABLE 31

RECEIPTS FROM STATE AID BY THE PUBLIC SCHOOLS OF FLORIDA FROM 1917 TO 1938

Year	Total Receipts	State Aid	
		Amount Received	Per Cent of Total Receipts
1938	$24,341,958	$11,607,387	47.68
1937	25,430,192	11,869,306	46.67
1936	22,403,908	11,323,249	50.54
1935	18,997,984	5,583,122	29.39
1934	18,273,905	5,244,308	28.70
1933	17,789,208	5,182,499	29.13
1932	21,475,819	6,093,160	28.37
1931	21,595,021	4,203,418	19.46
1930	24,576,797	4,645,533	18.90
1929	28,193,517	2,526,474	8.96
1928	37,561,785	1,958,933	5.22
1927	46,000,459	853,079	1.85
1926	43,330,045	750,331	1.73
1925	21,925,140	566,772	2.59
1924	19,646,017	512,183	2.61
1923	16,116,579	532,920	3.31
1922	16,144,853	439,092	2.72
1921	13,010,678	414,300	3.18
1920	10,704,402	427,506	3.99
1919	7,943,370	432,478	5.44
1918	7,934,671	413,232	5.21
1917	7,758,212	389,784	5.02
Mean. . .	.....	.....	15.94
Range . .	.....	.....	1.73--50.54

North Carolina.--The relationship existing between state aid and short-term borrowing in North Carolina follows very much the same pattern as presented by the schools of Florida. By

referring to Figure 2 we can trace the receipts from short-term loans and from state aid in North Carolina during the twenty-two year period from 1916 to 1937 inclusive. The amount of money borrowed on short-term loans reached its highest point in 1921 when approximately 22 per cent of the total receipts were from that source. Beginning with the year 1931 the short-term borrowing declined sharply and reached a low point of about 2 per cent of the total receipts in 1936. In direct contrast to this, the receipts from state aid have increased from 4 per cent of the total receipts in 1922 to a high of 62 per cent in 1934 and have since remained at about 55 per cent. From Table 32 it may be observed that during the twenty-two year period, the receipts from state aid were 24.1 per cent of the total receipts for public school purposes. As soon as the money received from state aid became substantially greater, the amount of borrowing necessary against the current tax levies became less and less. This observation substantiates the data presented in respect to Florida as shown in Figure 1 which also indicates that short-term borrowing decreased as state aid increased.

Among the numerous other arguments presented in favor of state aid as a means of equalizing educational opportunity one might add that it diminishes the financial expenses of the schools by reducing or eliminating the interest cost necessarily paid on short-term loans against anticipated taxes or other forth-coming revenue. That such interest charges can reach a figure that is relatively high is shown in Table 36 and Table 37 where it is noted that the schools of the States of Washington and Idaho pay 2.12 per cent and 1.68 per cent respectively of their total expenditures for interest on short-term warrants. Aside from the tendency toward extravagance, it would seem that the excessive interest cost is the most objectionable feature of school borrowing.

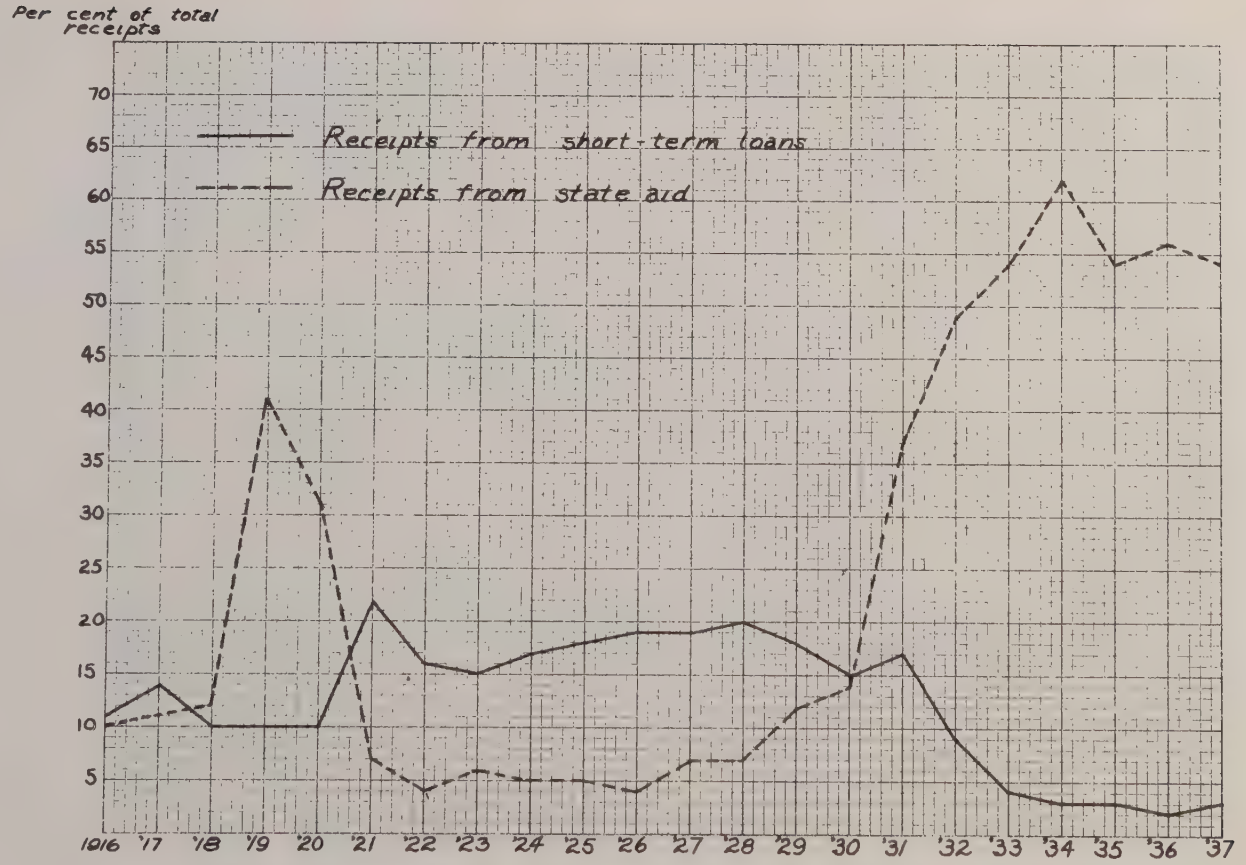

Fig. 2.--Percentage of total receipts derived from short-term loans and from state aid by the schools of North Carolina from 1916 to 1937.

TABLE 32

RECEIPTS FROM STATE AID BY THE PUBLIC SCHOOLS OF NORTH CAROLINA FROM 1915 TO 1937

Year	Total Receipts	Current Receipts	State Aid		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1937	$39,698,635	$25,698,461	$21,447,700	54.03	83.46
1936	36,303,955	24,427,162	20,160,048	55.53	82.53
1935	31,341,349	20,283,467	16,813,355	53.65	82.89
1934	27,247,335	19,114,944	16,816,355	61.72	87.97
1933	30,485,454	23,134,672	16,346,057	53.62	70.66
1932	36,341,715	24,358,030	17,623,330	48.49	72.35
1931	45,517,414	27,407,368	17,040,826	37.44	62.18
1930	48,872,866	33,046,638	6,682,298	13.67	20.22
1929	52,870,318	33,171,529	6,557,175	12.40	19.77
1928	53 949,866	31,853,891	3,688,299	6.84	11.58
1927	54,000,249	26,515,475	3,634,915	6.73	13.71
1926	45,208,252	27,667,148	1,934,164	4.28	6.99
1925	42,955,330	26,712,990	1,938,225	4.51	7.26
1924	41,443,315	23,919,613	2,065,414	4.98	8.63
1923	34,741,036	19,565,186	2,026,058	5.83	10.36
1922	30,149,855	18,298,324	1,348,768	4.47	7.37
1921	21,267,400	13,176,243	1,463,658	6.88	11.11
1920	15,066,486	11,496,893	4,719,737	31.33	41.05
1919	8,324,045	6,987,867	3,421,692	41.11	48.97
1918	7,987,994	6,052,710	993,377	12.44	16.41
1917	7,904,372	5,502,739	829,800	10.50	15.08
1916	7,272,887	5,356,176	753,983	10.37	14.08
1915	6,445,323	4,725,959	873,697	13.56	18.49
Mean	.....	.....	.....	24.10	35.35
Range	.....	.....	.....	4.28-61.72	6.99-87.97

Connecticut.--Borrowing against anticipated revenue has not been carried on as extensively in Connecticut as in many other states. During the years 1924 to 1937 an average of about 2 per cent of the total receipts were from short-term loans and about 5 per cent were from state aid. But even when they are such a small percentage of the total receipts, they reveal a definite relationship as may be observed from Figure 3. It can be seen that the graph follows the same general pattern revealed by the data presented on the finances of the States of Florida and North Carolina in Figures 1 and 2 respectively. Short-term borrowing against

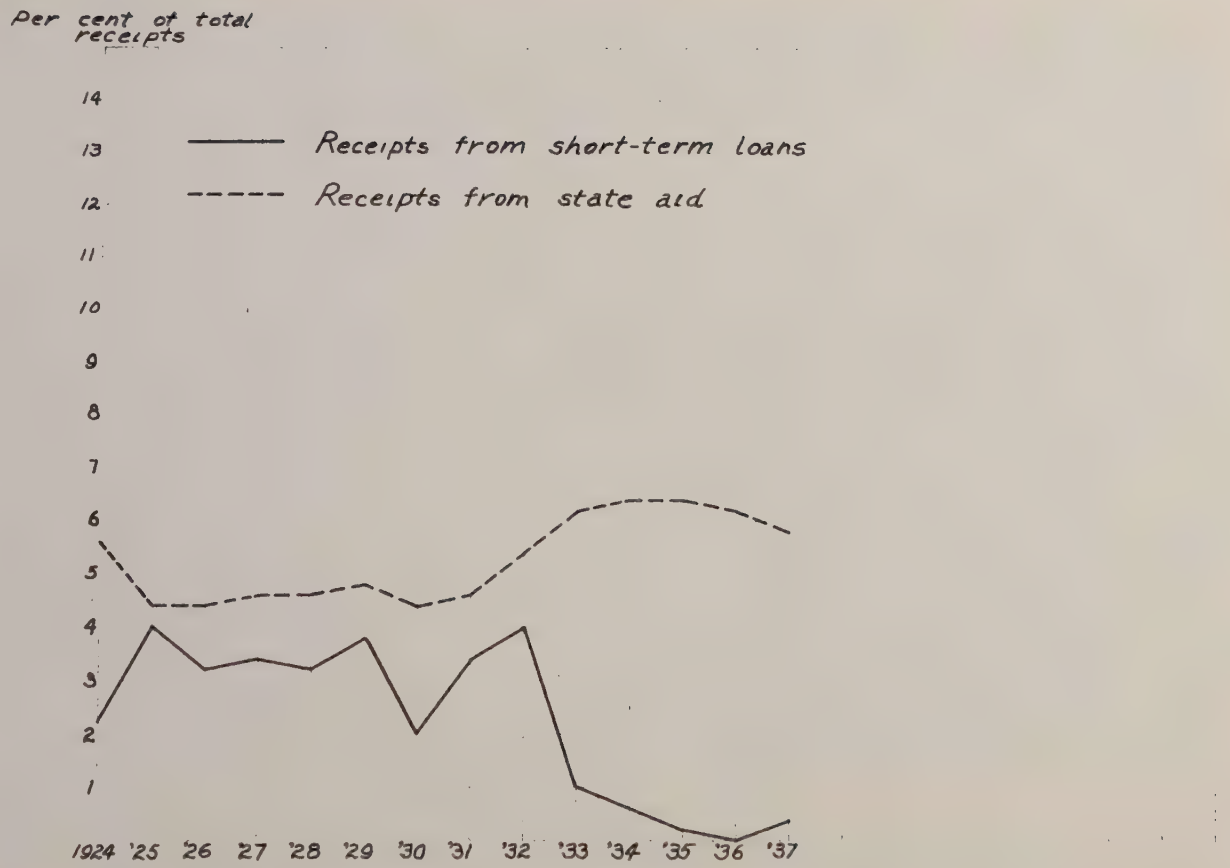

Fig. 3.--Percentage of total receipts derived from short-term loans and from state aid by the schools of Connecticut from 1924 to 1937.

future income in Connecticut has shown a marked decline since 1932 and reached the lowest point in 1936. During the corresponding period the receipts from state aid have increased and remained at approximately 6 per cent of the total receipts. In Connecticut, therefore, short-term borrowing has decreased as state aid has increased even though the combined receipts from such sources are only a portion of the total income of the schools.

Michigan.--Table 33 indicates that the schools of Michigan are showing increased receipts from state aid. The rise has been especially noticeable since 1930. In that year the receipts from state aid were 15 per cent of the total receipts while in 1937 they were 36 per cent. Figure 4 shows the receipts from short-term borrowing and from state aid for the years 1924 to 1937 inclusive. It is evident that the graph follows the same general pattern as those of Florida, North Carolina, and Connecticut. Short-term loans have decreased from 15 per cent in 1924 to 7 per cent in 1937 while receipts from state aid have increased from 18 per cent to 36 per cent during the same period. Short-term borrowing has decreased about 100 per cent while state aid has increased about 100 per cent during the same fourteen year period covered in Figure 4. The data are in agreement with those previously presented for Florida, North Carolina, and Connecticut, showing that short-term borrowing against anticipated school revenue tends to become less as the receipts from state aid are increased.

In order to plan a constructive educational program, it is necessary to have an adequate and dependable source of income. Inasmuch as the appropriations for state aid are set up by the state legislatures, provisions must be made by them for securing the necessary funds. Once this procedure is soundly established, the schools can be reasonably sure of securing the state aid funds

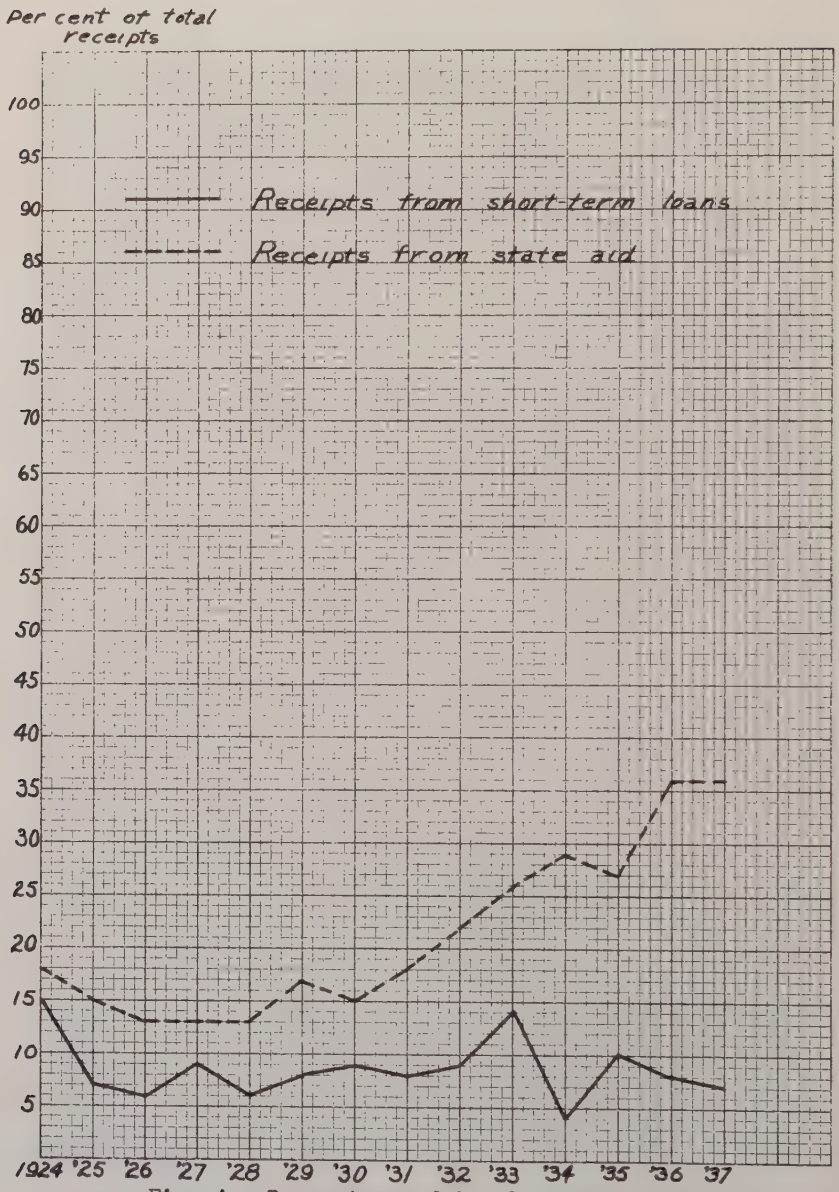

Fig. 4.--Percentage of total receipts derived from short-term loans and from state aid by the schools of Michigan from 1924 to 1937.

allotted to them. The entire financial program can then be set up in such a way that funds will be on hand when needed, or if short-term loans against anticipated revenue are necessary, the duration of such loans can be adjusted to fit the income periods.

TABLE 33

RECEIPTS FROM STATE AID BY THE SCHOOLS OF MICHIGAN FROM 1924 TO 1937

Year	Total Receipts	Current Receipts	State Aid		
			Receipts During the Year	Per Cent of Total Receipts	Per Cent of Current Receipts
1937	$105,338,974	$95,080,193	$95,080,193	35.55	39.38
1936	104,276,010	92,443,964	37,051,971	35.53	40.08
1935	87,826,232	74,496,663	23,768,977	27.06	31.91
1934	74,656,517	70,103,620	22,008,428	29.48	31.39
1933	79,006,303	66,583,973	20,777,182	26.30	31.20
1932	110,564,023	99,334,822	24,083,956	21.78	24.25
1931	132,064,922	109,134,340	24,064,713	18.22	22.05
1930	135,335,700	108,979,788	20,062,566	14.82	18.41
1929	124,532,837	103,589,735	20,553,480	16.50	19.84
1928	122,145,053	96,578,707	15,426,896	12.63	15.97
1927	117,531,043	90,024,398	15,176,646	12.91	16.86
1926	114,317,462	85,120,418	15,333,782	13.41	18.01
1925	103,003,099	75,083,827	15,033,782	14.60	20.02
1924	81,860,476	69,681,286	15,055,174	18.39	21.61
Mean	.....	.....	.....	21.23	25.07
Range	.....	.....	.....	12.63-35.55	15.97-40.08

Virginia.--The receipts from state aid and from short-term loans in Virginia for the years 1920 to 1937 inclusive are shown in Figure 5. The statutes of the state authorize school districts to borrow up to 50 per cent of all revenue expected to be received from the current year's taxes, and from the state aid appropriation for the current year. It can be observed from Figure 5 that the schools have never had to use their short-term borrowing power to the fullest extent. The short-term loans have averaged approximately 5 per cent of the total receipts during the eighteen years covered by the data. Table 34 indicates that the receipts from

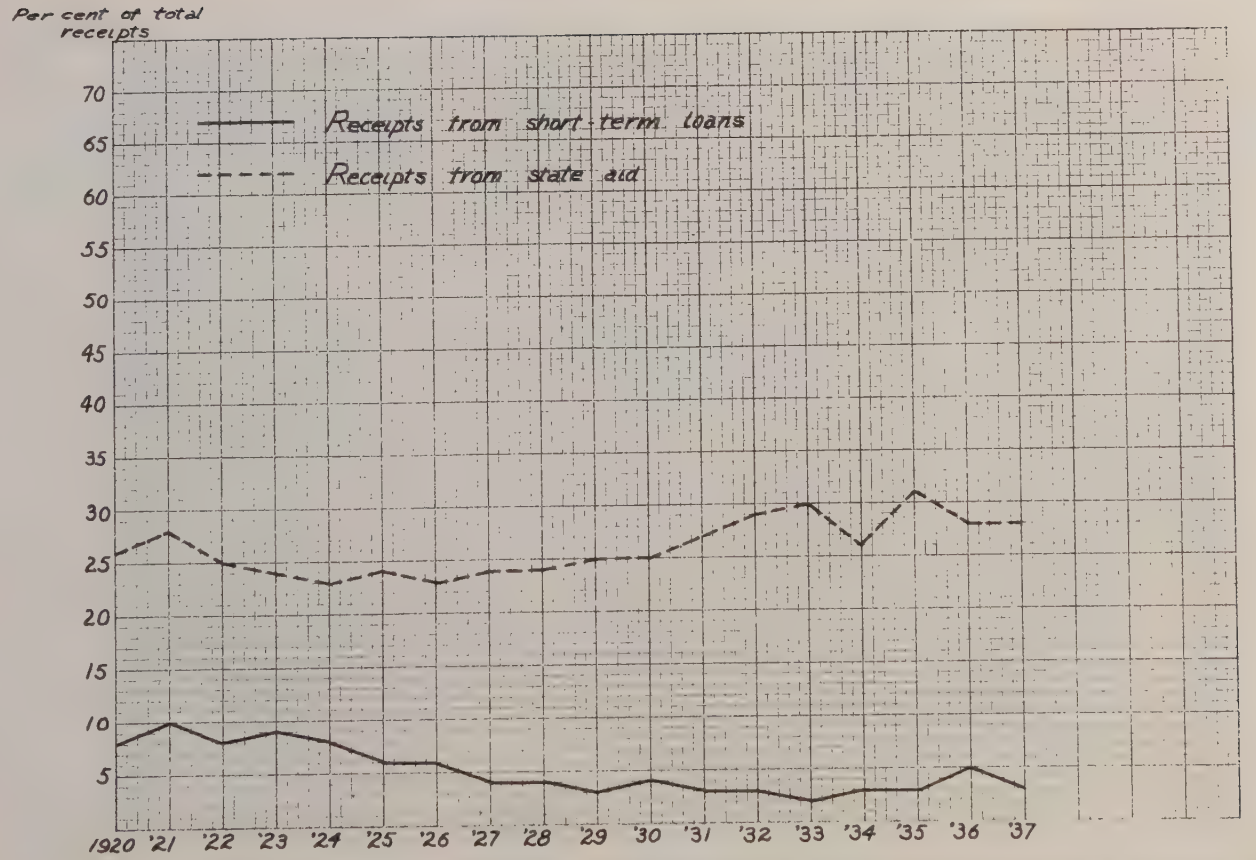

Fig. 5.--Percentage of total receipts derived from short-term loans and from state aid by the schools of Virginia from 1920 to 1937.

state aid have been fairly stable. The range is from 23 per cent to 31 per cent with an eighteen year average of 26.12 per cent. As was the case in Florida, North Carolina, Connecticut, and Michigan, the graph shows that short-term loans against anticipated revenue tend to decrease as the funds from state aid increase. Inasmuch as the receipts from the state appropriation have been fairly stable, the fluctuations have not been as pronounced as in the other states. The low point in short-term loans was reached in 1933 when 2 per cent of the total receipts were from money borrowed in anticipation of future income. State aid reached its maximum in 1935 when 31 per cent of the total receipts of the public schools of Virginia came from that source. It appears from Figure 5 that the public school districts can rely quite definitely upon the State of Virginia for a contribution sufficient to finance about one-fourth of their cost. Likewise, the revenue from district taxes and from state aid is apportioned in such a manner that the short-term borrowing need not be done on an extensive scale.

Illinois.--From the data presented in Figure 6 we can observe the contributions received from state aid and the receipts from tax anticipation warrants in Illinois from 1921 to 1937. It can be noted that considerable use has been made of short-term borrowing by pledging the current taxes. The high point was reached in 1930 when 52 per cent of the total receipts of the schools were from money borrowed on tax anticipation warrants. The largest amount of this borrowing was centered in Cook County where a reassessment of all property was made in 1928. Practically no real estate or personal property taxes were paid for two years. As was previously stated, "borrowed" money must be repaid, and to pay interest on 52 per cent of the annual cost of operating the

schools places an extra burden on the taxpayers of the district and decreases the actual money available for school purposes.

TABLE 34

RECEIPTS FROM STATE AID BY THE SCHOOLS OF VIRGINIA FROM 1920 TO 1937

Year	Total Receipts	State Aid	
		Amount Received	Per Cent of Total Receipts
1937	$26,154,183	$7,447,144	28.47
1936	24,233,608	6,880,872	28.39
1935	22,746,342	6,966,945	30.63
1934	21,007,320	5,491,515	26.14
1933	21,634,341	6,392,554	29.55
1932	24,201,509	7,048,860	29.13
1931	25,613,762	7,024,496	27.42
1930	25,246,924	6,209,167	24.59
1929	25,185,476	6,293,523	24.99
1928	23,467,471	5,595,949	23.85
1927	23,494,824	5,697,070	24.25
1926	23,800,463	5,495,843	23.09
1925	23,004,488	5,424,499	23.58
1924	23,055,698	5,371,831	23.30
1923	21,442,789	5,218,001	24.33
1922	21,570,205	5,383,040	24.96
1921	16,228,032	4,506,587	27.77
1920	12,815,214	3,299,268	25.74
Mean. . .	.....	.....	26.12
Range . .	.....	.....	23.09--30.63

State aid in Illinois has not kept pace with that of most other states. Table 35 shows that the receipts from state aid in Illinois during the seventeen year period from 1921 to 1937 inclusive averaged 6.11 per cent of the total receipts and the range was from 2.81 per cent in 1930 to 9.89 per cent in 1935. It is apparent that in the year 1930 when short-term borrowing on tax warrants was the highest (about 52 per cent), the receipts from state aid were the lowest (about 3 per cent). In direct contrast to this it is revealed that in 1935 the receipts from state aid were the highest (about 10 per cent) and the receipts from tax

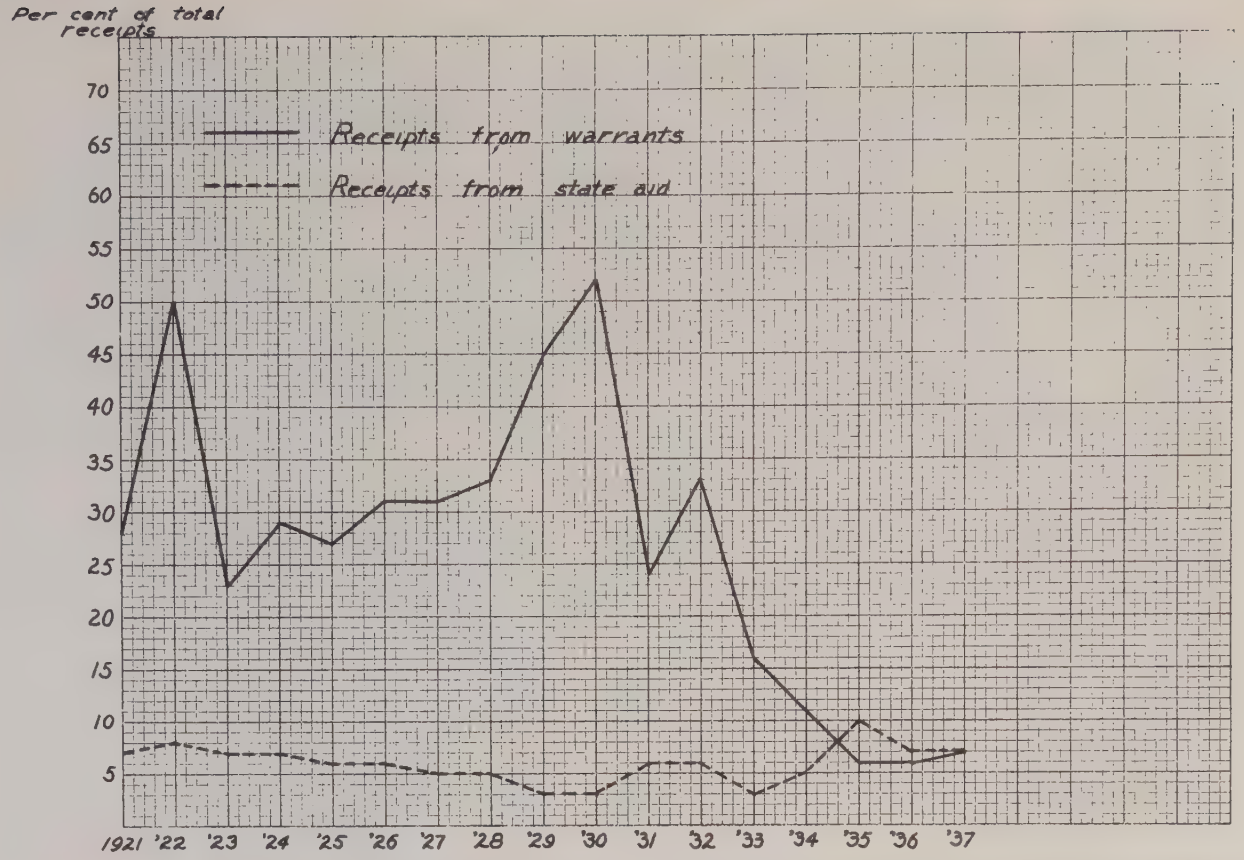

Fig. 6.--Percentage of total receipts derived from tax anticipation warrants and from state aid by the schools of Illinois from 1921 to 1937.

anticipation warrants were the lowest (about 6 per cent) of any year covered by the data. These facts tend to substantiate the data previously presented that as state aid increases, the need for short-term borrowing decreases. No apparent relationship is evident between the short-term borrowing and state aid receipts such as was noted in the data for the states of Florida, North Carolina, Connecticut, Michigan, and Virginia. Table 8 reveals that an average of 26.58 per cent of the total receipts of the schools of Illinois has been from money borrowed in anticipation of tax collections during the seventeen year period from 1921 to 1937 inclusive. The maximum amount of tax warrants issued cannot be in excess of 75 per cent of the tax levy unless a working cash fund has been established, when the maximum is 90 per cent.

TABLE 35

RECEIPTS FROM STATE AID BY THE SCHOOLS OF ILLINOIS FROM 1921 TO 1937

Year	Total Receipts	State Aid	
		Amount Received	Per Cent of Total Receipts
1937	$166,279,984	$10,956,690	6.59
1936	156,030,358	11,666,321	7.48
1935	191,785,299	18,972,453	9.89
1934	144,869,286	7,739,721	5.34
1933	142,807,570	4,741,603	3.33
1932	141,984,201	8,081,285	5.69
1931	210,406,385	13,053,050	6.20
1930	162,524,775	4,564,400	2.81
1929	153,075,096	4,867,445	3.18
1928	164,838,293	8,333,461	5.06
1927	155,671,087	8,438,053	5.42
1926	141,076,960	8,782,641	6.23
1925	138,859,732	8,783,834	6.33
1924	127,572,543	8,865,034	6.95
1923	124,362,023	8,680,440	6.98
1922	111,750,568	8,617,447	7.71
1921	99,041,179	6,506,387	6.57
Mean. . .	.....	.....	6.11
Range . .	.....	.....	2.81--9.89

Short-Term Borrowing and General Economic Conditions

School districts are not immune to the periods of economic depression which are such a well known factor in the business world. The importance of having an adequate and stable source of income for the schools is especially desirable during such periods. People become tax conscious and often attempt to substantially reduce the support which is normally rendered to public education.

In order to successfully survive these depression periods the schools have used several distinct methods. The most significant of these have been the use of reserves or surpluses, the reduction of operating expenses, and short-term borrowing against anticipated revenue. Some school districts accumulate enough surplus money to enable them to finance their operations over short emergency periods. However, the school laws of many states prohibit the accumulation of funds beyond the needs for the current year so that the practice of "hoarding" money for emergency purposes is not generally established in the schools. The second method used is to decrease expenditures. This is a very common procedure for districts which find themselves in financial difficulties. Salaries are reduced, departments and services are eliminated, and the offerings of the educational program are generally curtailed. The third method used is short-term borrowing against anticipated revenue. Such borrowing may be necessary even in connection with a limited educational program, but only its general significance with respect to low economic conditions will be discussed herein.

The data shown in Figure 5 regarding the income from state aid and short-term loans in Virginia from 1920 to 1937 indicate that the financial receipts for the schools of the state are on a sound basis. The income is fairly stable and normally about one-

fourth of the cost of the schools is paid from state aid. In 1933 when the schools of many states were at the height of their borrowing power, the schools of Virginia were borrowing the least money of any year during the eighteen covered by the data. The amount received from state aid in 1933 was 30 per cent of the total receipts. Virginia serves as a good example of a state that has set up a program of school support which is stable enough to withstand such depression periods as were experienced in the early 1920's and 1930's. The effect of these recent depressions on the short-term financial needs of the schools can best be seen by studying the series of graphs of several states presented herewith.

Oregon.--Warrants endorsed "not paid for want of funds" form the basis upon which most of the short-term financing is done by the schools of Oregon. By referring to Figure 7 we can observe the trend of short-term borrowing for schools from 1920 to 1938 in Oregon. It is evident from the graph that in the year 1933 a point was reached where the warrants outstanding were approximately 44 per cent of the total expenditures. The average amount of outstanding warrants for each of the nineteen years covered in the data is about 15 per cent of the total expenditures. That there has been a gradual recovery in the financial condition of the schools is apparent when we note that in 1938 the percentage of warrants outstanding had been reduced to 7. The data show that short-term financing by the use of warrants increased to a considerable degree in Oregon during the depression years of the early 1930's.

Washington.--The trend of short-term financing in the schools of the State of Washington follows about the same pattern as was evident in Oregon. Figure 8 shows that the warrants outstanding reached the highest point in 1933 when they were equivalent

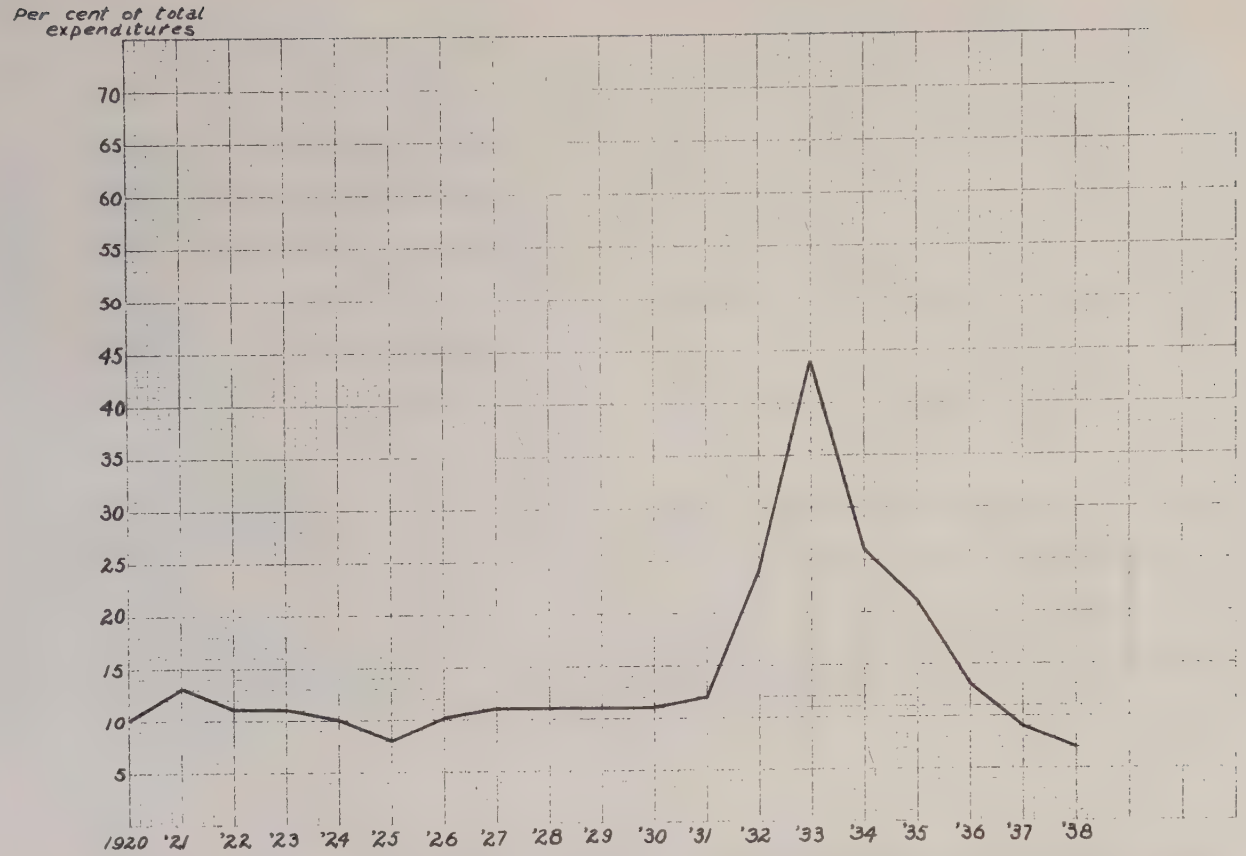

Fig. 7 --Percentage of warrants outstanding at the end of the year in the schools of Oregon from 1920 to 1938.

to 41 per cent of the total expenditures and 51 per cent of the current expenses. During the twenty-two year period covered by the data, the average amount of warrants outstanding at the end of the year was about 15 per cent of the total expenditures and 18 per cent of the current expenses. There has been a marked improvement in the condition in recent years, for in 1936 the outstanding warrants were only 8 per cent of the total expenditures and 10 per cent of the current expenses. This represents a difference of 33 and 41 per cent respectively from the high points reached in 1933.

Not only can the schools of Washington issue regular warrants and have them endorsed "not paid for want of funds" but they also have authority to issue "emergency warrants."[1] These warrants may be issued against the general fund upon the happening of any of the following emergencies:

1. Destruction or impairment of school property.
2. Additional school facilities to provide for an increased enrollment.
3. Epidemics.
4. Settlement of judgments for damages.
5. Meeting the needs of legislation enacted since the passing of the budget and requiring additional expenditures.

A special tax is levied to redeem the warrants issued under these conditions. The data presented in Figure 8 show that the use of warrants by the schools of Washington increased during the years when the recent depression was at its height.

South Dakota.--The data relative to the use of warrants by the schools of South Dakota is presented in Figure 9. It can be observed that the depression of both the early 1920's and 1930's tended to increase the use of short-term financial paper by the

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[1]Code of Public Instruction, Washington, 1923, sec. 809.

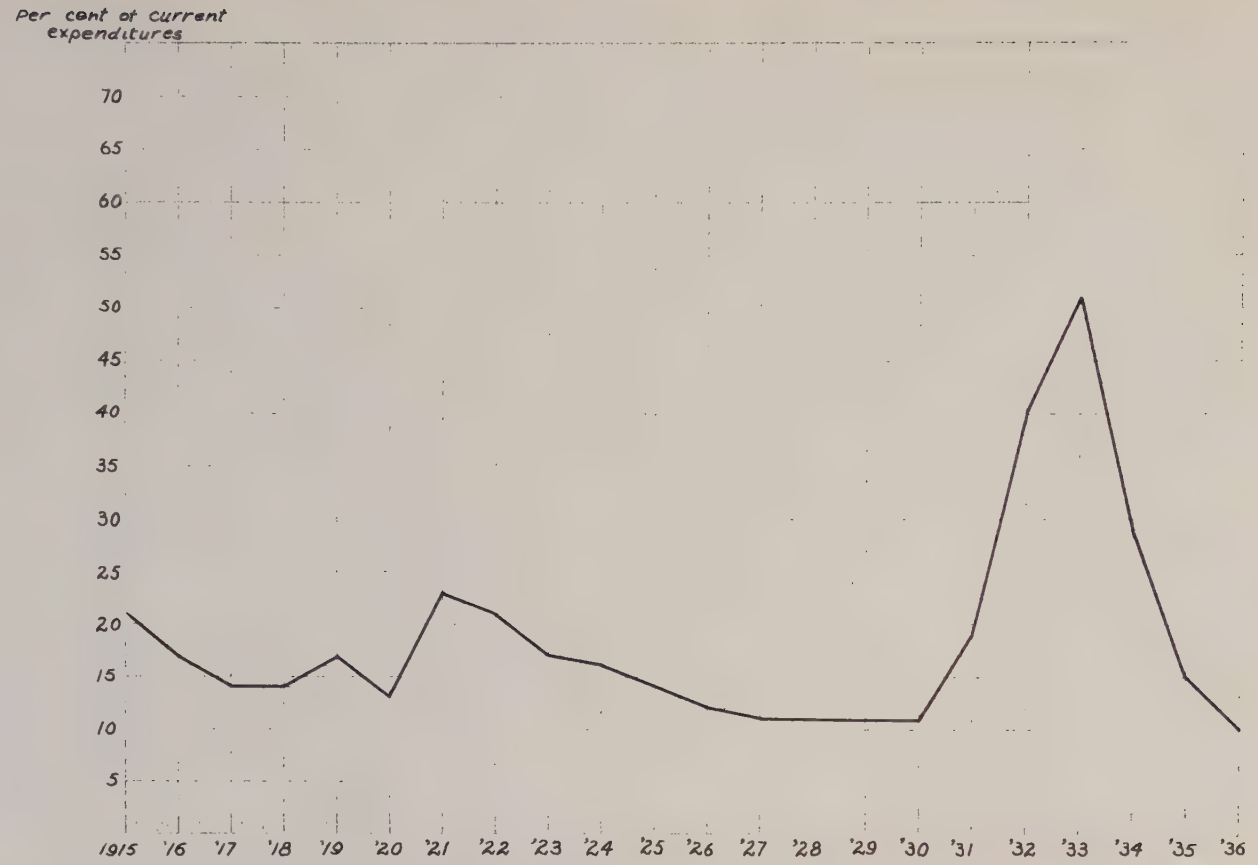

Fig. 8.--Percentage of warrants outstanding at the end of the year in the schools of Washington from 1915 to 1936

schools. The highest point was reached in 1933 when the warrants outstanding at the end of the year were approximately 28 per cent of the total expenditures. In Table 25 it was observed that the greatest redemption of warrants took place in 1934 when 16 per cent of the total expenditures were made to pay off outstanding warrants. A gradual improvement is noted since that time. In 1938 about 8 per cent of the total money spent by the school districts was for the purpose of paying off warrants. Likewise the percentage of warrants outstanding has been reduced from a high of 28 per cent in 1933 to 15 per cent in 1938. These data show that the use of tax warrants by the schools of South Dakota increased during depression years just as it did in Washington and Oregon.

Nebraska.--Tax warrants are not used as extensively to finance the schools of Nebraska as they are in the states of Washington, Oregon, and South Dakota. But even though used on a smaller scale, the same general trend of increased usage during depression years is evident. Figure 10 indicates the school warrants outstanding in the State of Nebraska from 1925 to 1938 inclusive. During the fourteen year period covered by the data, the average amount of warrants outstanding at the end of each year was 6 per cent of the total expenditures. The highest point was reached in 1933 when they were about 9 per cent of the total expenditures for public schools. The lowest point was about 4 per cent in 1937 and 1938. It is evident from the data that the amount of financing done by warrants in Nebraska was greater during the economic depression of 1933. Likewise, the usage made of them had returned to a fairly normal amount in 1938.

Florida.--The trend of outstanding tax warrants in Florida follows very much the same pattern as that of the states previously discussed. However, the maximum was reached two years earlier and

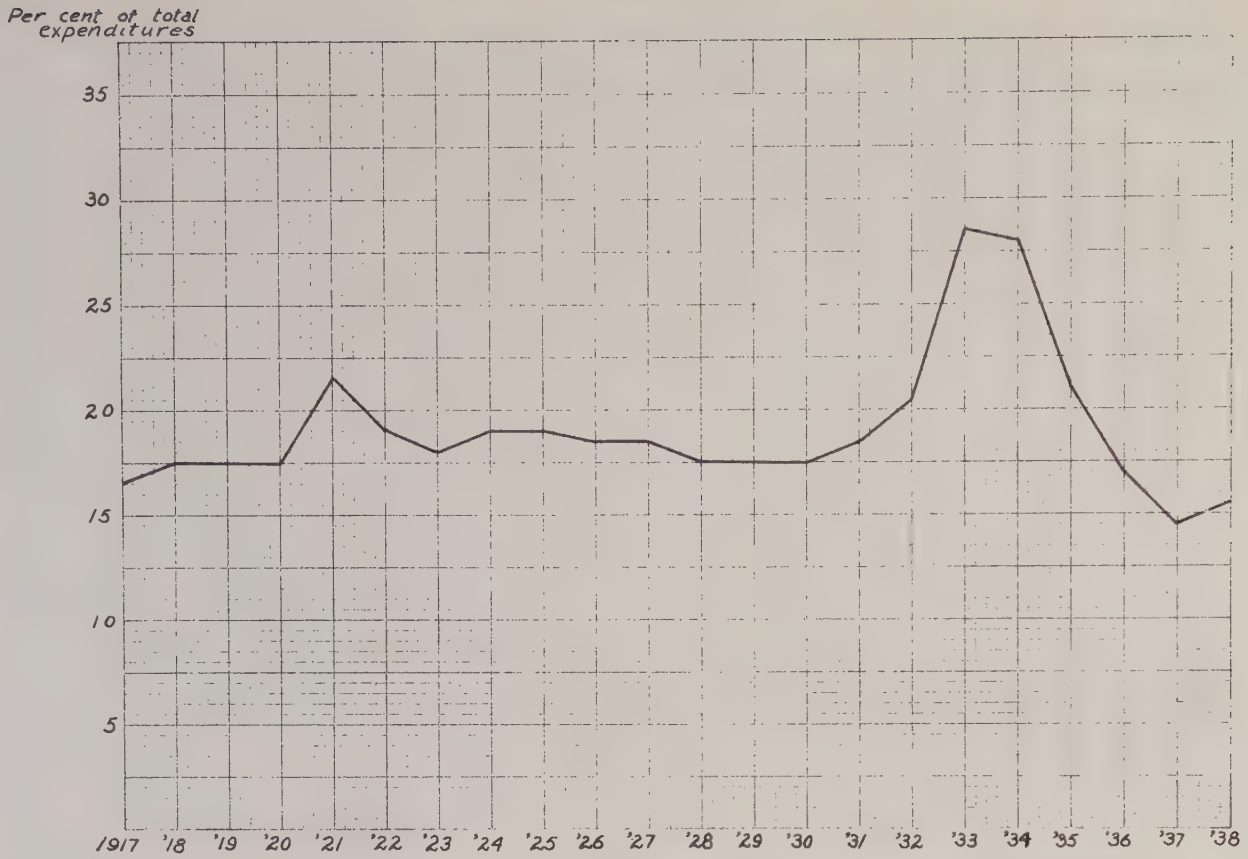

Fig. 9.--Percentage of school warrants outstanding at the end of the year in the schools of South Dakota from 1917 to 1938.

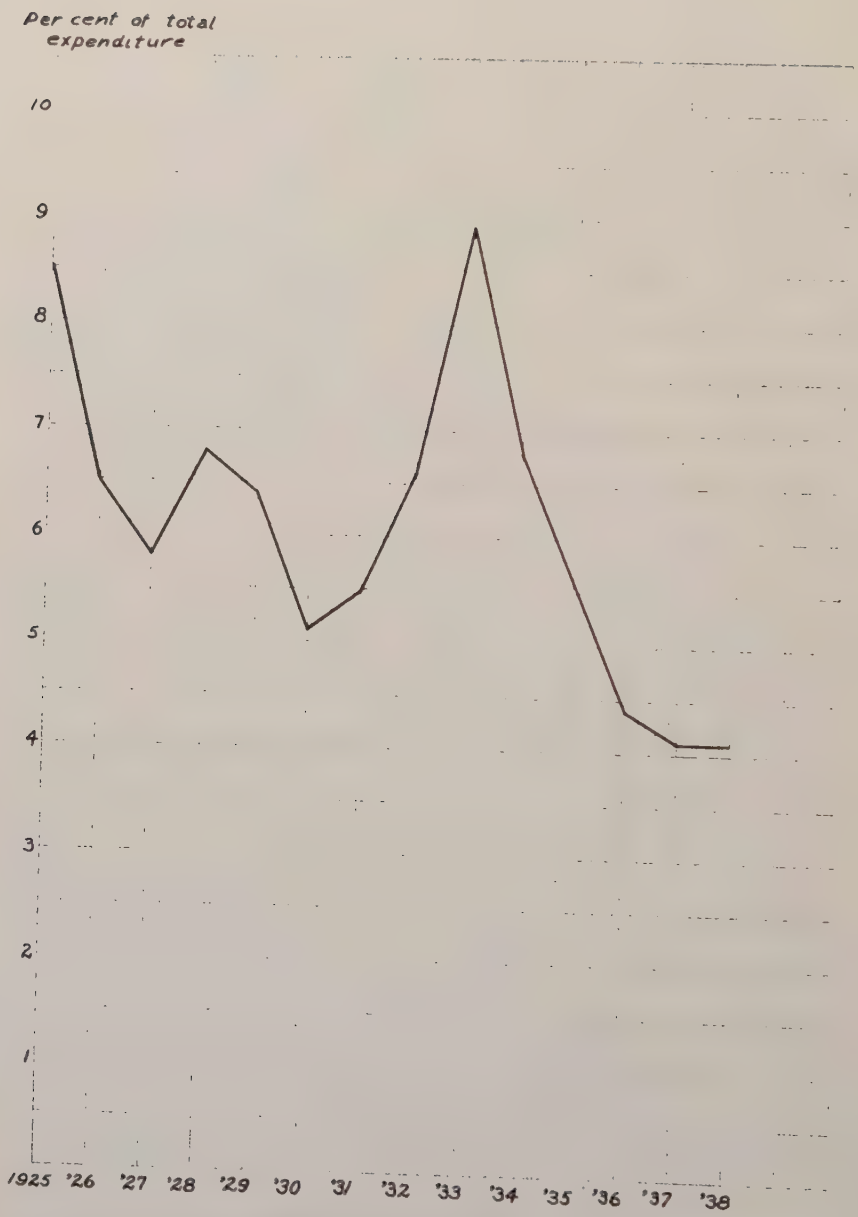

Fig. 10.--Percentage of warrants outstanding at the end of the year in the rural schools of Nebraska from 1925 to 1938.

Figure 11 shows that in the year 1931 the outstanding warrants were 38 per cent of the total expenditures and 61 per cent of the current expenses of the public schools. There has been a gradual decline since that high point. In 1938 outstanding tax warrants were only 4 per cent of the total expenditures and 6 per cent of the current expenses. A considerable degree of this decline has been the result of the increased funds received from state aid as was already indicated in Figure 1. The data in Figure 11 show that the use of short-term financing with tax warrants was increased during the depression years of the early 1930's.

Utah.--Boards of education in the State of Utah may borrow for the maintenance of schools within the districts, practically 100 per cent of the taxes levied for the current school year.[1] This is a very broad and liberal grant of borrowing power. However, the school officials have been conservative in the use which they have made of the liberal authority granted to them by the statutes. The graph shown in Figure 12 reveals the trend of the payments made for short-term loans from 1927 to 1938 inclusive. During the twelve year period covered by the data the average yearly payment of short-term loans was only about 3 per cent of the current expenses. Short-term financing by the schools of Utah reached its highest point in 1933 when over 9 per cent of the total and 12 per cent of the current expenditures were for the payment of short-term loans. Since that time the short-term borrowing has been considerably less. In 1936 the payments were less than 1 per cent of the total expenditures. The trend of short-term financing in Utah, therefore, follows the same pattern of increasing during depression years as previously revealed by the data for the States of Oregon, Washington, South Dakota, Nebraska,

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[1] Revised Statutes of Utah, 1933, chap. 13, sec. 75-13-1.

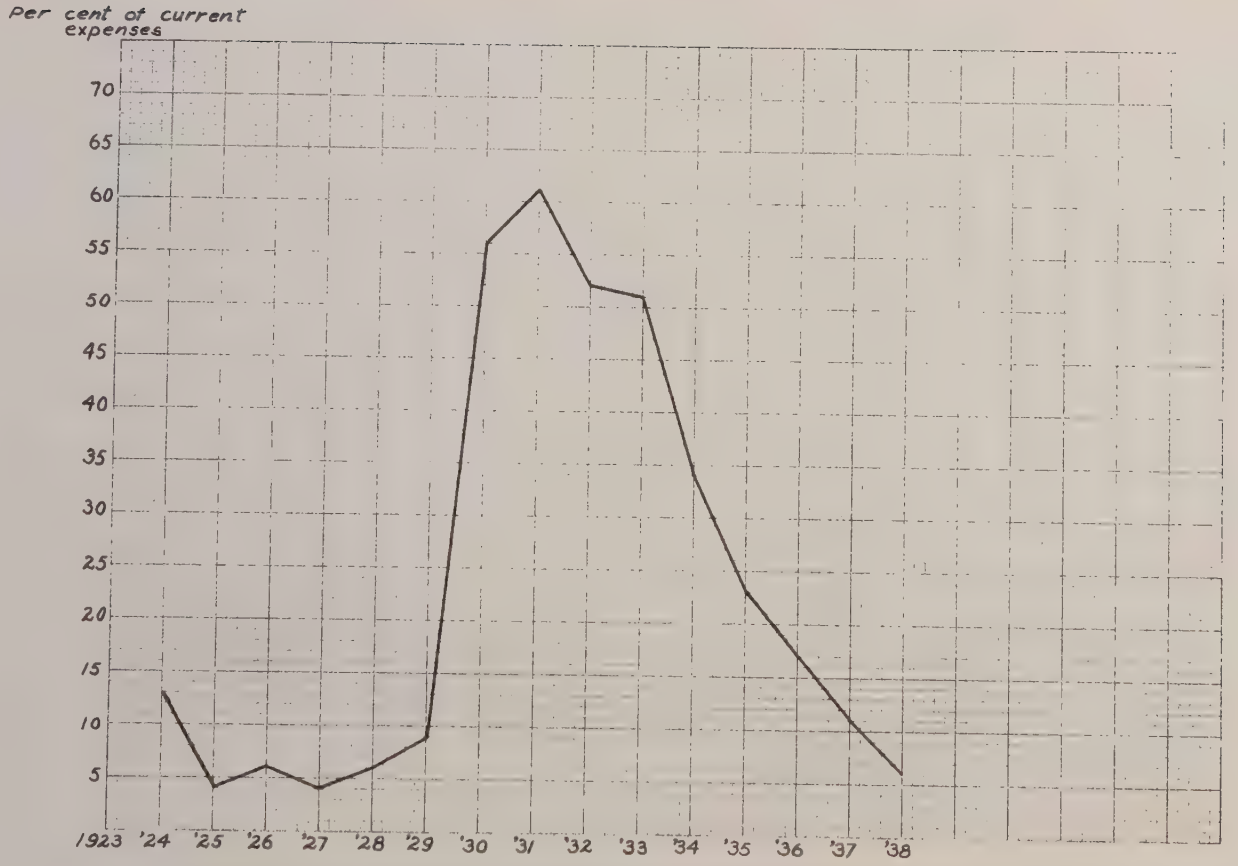

Fig. 11.--Percentage of warrants outstanding at the end of the year in the schools of Florida from 1924 to 1938.

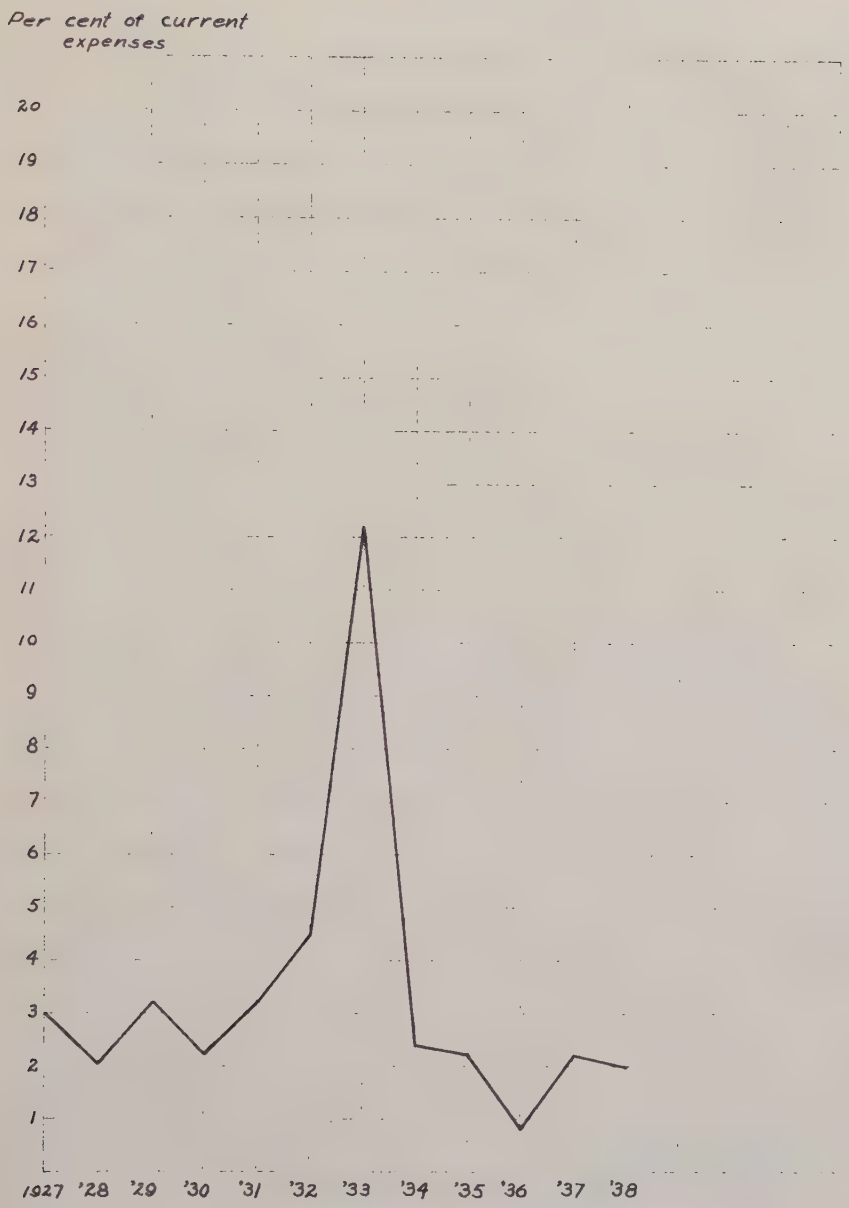

Fig. 12.--Percentage of short-term loans paid by the schools of Utah from 1927 to 1938.

and Florida in Figures 7 to 11 inclusive.

Michigan.--Payments of short-term loans by the school districts of Michigan are shown in Figure 13 for the fourteen year period from 1924 to 1937. In 1933 the loans paid were over 18 per cent of the current expenses. The payments made in 1924 were also considerably above the average being more than 19 per cent of the current expenses for that year. The general trend follows those of the states previously discussed in this section.

Louisiana.--The depression periods of the early 1920's and early 1930's both had a profound effect upon the short-term financing problems of the public schools of Louisiana. A school board in the state may borrow 50 per cent of its expected revenue receipts for current operation, and if the school district has a population of two hundred thousand or more, the board may borrow up to 75 per cent of such anticipated income.[1] Figure 14 indicates the trend of the receipts from short-term loans in Louisiana from 1919 to 1937 inclusive. It is evident that considerable use has been made of the short-term borrowing power granted to the school districts by the statutes. The maximum amount of borrowing took place in 1932 when approximately 64 per cent of the current receipts were from short-term loans. Improvement is noted by 1937 when the amount received from short-term loans was 20 per cent of the current income. Short-term borrowing also reached a high point in 1924 when 56 per cent of the current receipts were from money borrowed on a short-term basis. During the entire nineteen year period covered by the data shown in Figure 14, the average amount of money received from short-term loans was about 40 per cent of the current receipts.

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[1] Fifteenth Compilation of School Laws, Louisiana, 1936, Act No. 178 of 1932.

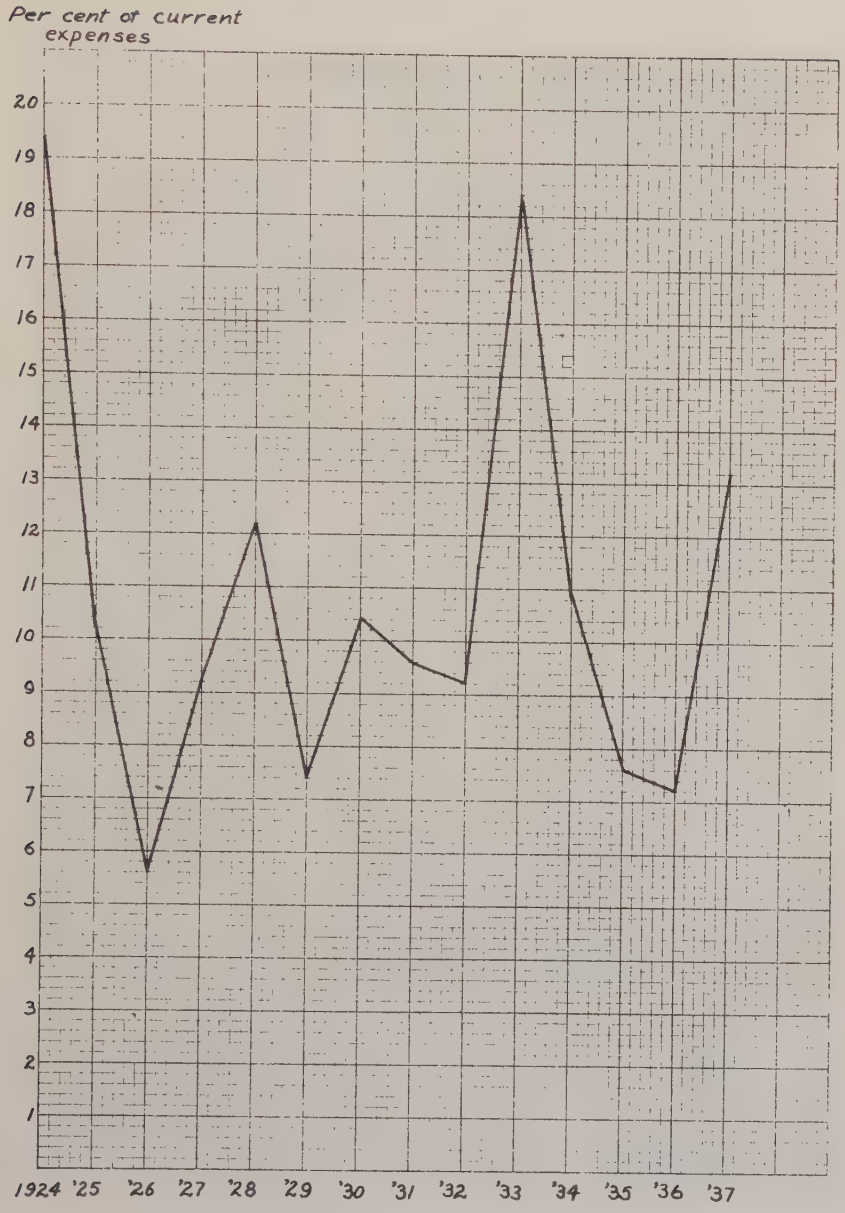

Fig. 13.--Percentage of short-term loans paid by the schools of Michigan from 1924 to 1937.

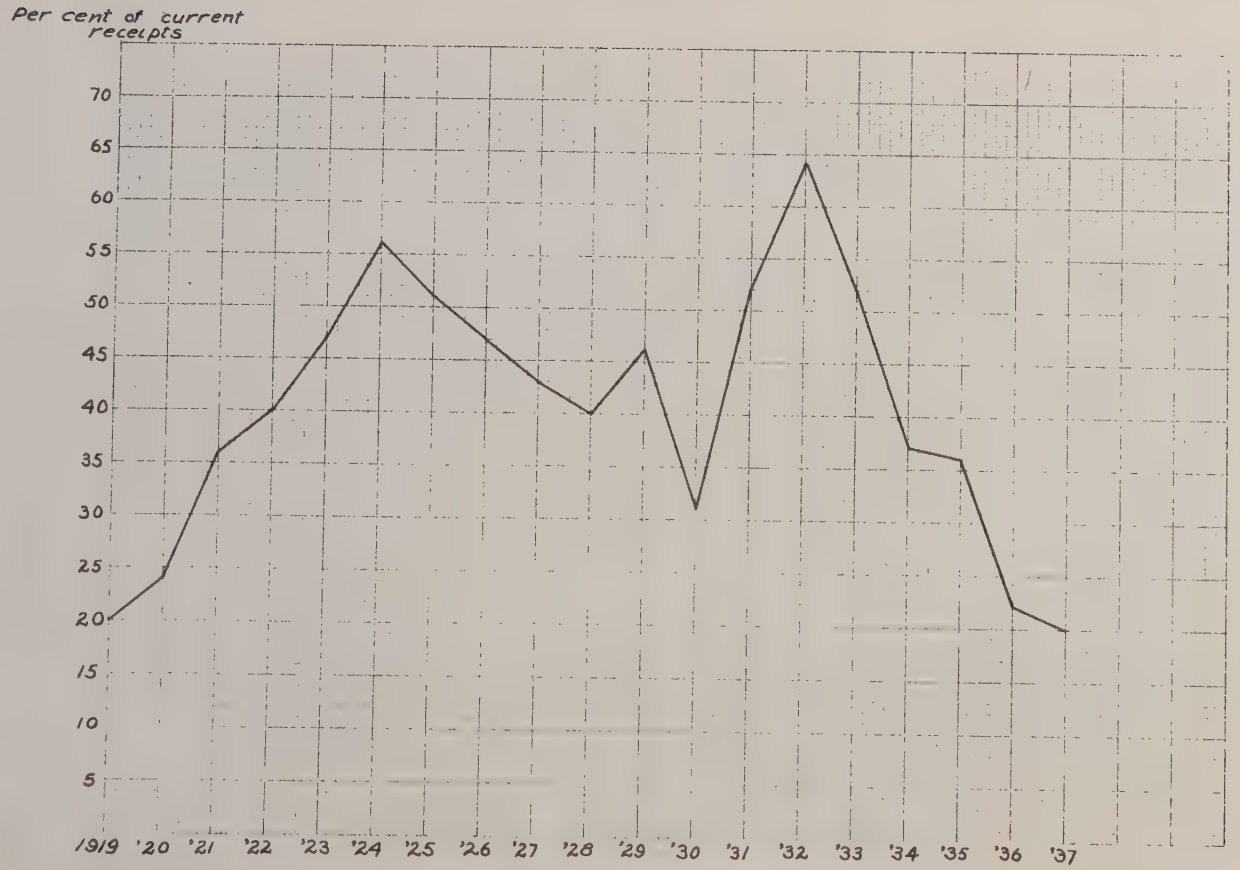

Fig. 14.--Percentage of receipts from short-term loans by the schools of Louisiana from 1919 to 1937.

Tennessee.--The payments made on short-term loans by the schools of Tennessee are recorded in Figure 15. It is evident that borrowing for current needs by pledging current revenue was increased during the depression years. The maximum redemption of such short-term obligations took place in 1934 when the loans repaid were 22 per cent of the current expenditures. During the ten year period covered by the graph, the average yearly payment of short-term loans was about 11 per cent of the current expenditures. A gradual improvement can be noted since 1934 and by 1938 the payments were only 5 per cent of the current expenses for public education in Tennessee.

Iowa.--Regular school warrants endorsed "not paid for want of funds" form the basis upon which short-term financing is done in the public schools of Iowa.[1] Figure 16 indicates the amount of such warrants outstanding at the end of each year from 1915 to 1936 inclusive. It can be observed that the highest point in their use was in 1921 when the outstanding warrants were over 9 per cent of the total expenditures for the year. A slight increase is also evident for the year 1933. The lowest point in their use was in 1936 when the warrants outstanding were less than 1 per cent of the total expenditures. The data show that the depression of the early 1920's caused more short-term financing with warrants than did that of the early 1930's, but both of the depression periods were responsible for an increase over the normal usage made of them.

Indiana.--School districts in the State of Indiana may borrow 33.33 per cent of the current year's taxes and 75 per cent of the delinquent taxes. In addition to the above, short-term

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[1]Iowa School Laws and Decisions, 1935, chap. 352-A1, sec. 7420-b3.

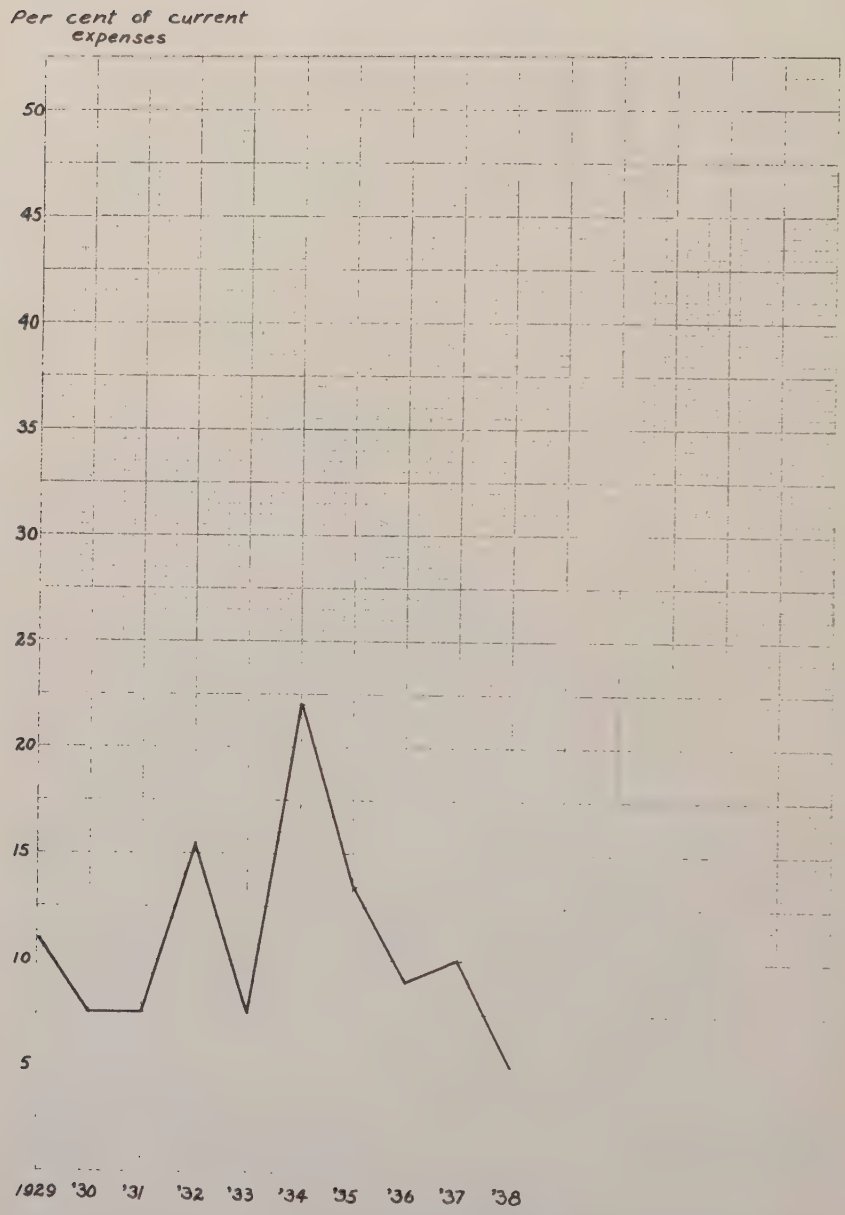

Fig. 15.--Percentage of payments made of short-term loans, notes, and warrants by the schools of Tennessee from 1929 to 1938.

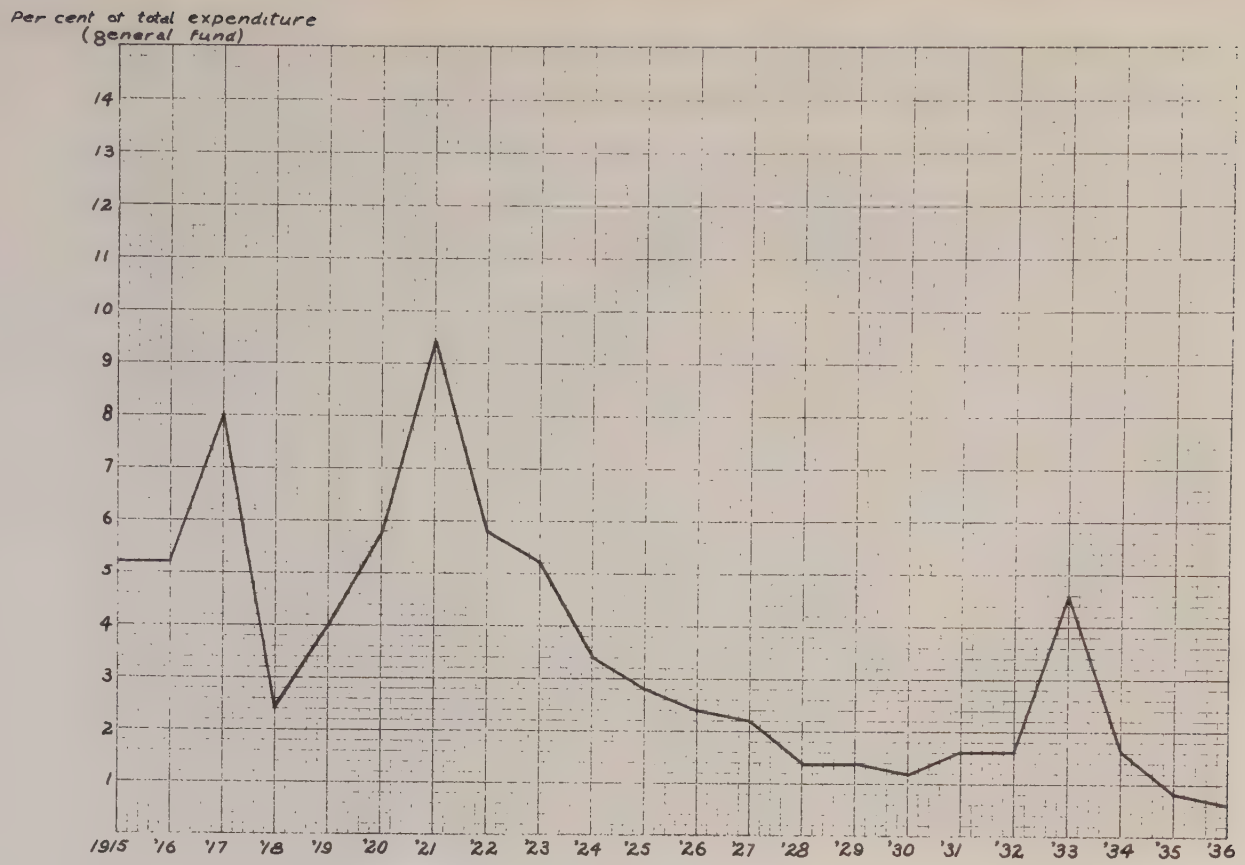

Fig. 16.--Percentage of warrants outstanding at the end of the year in Iowa schools from 1915 to 1936.

borrowing from funds within the district is authorized, and in special emergencies, money may be borrowed even though not provided for in the levy.

Figure 17 shows the payments made of short-term loans by the schools of Indiana from 1928 to 1938 inclusive. It is apparent that little use is made of the extensive borrowing power granted to the school authorities. During the eleven year period indicated by the data, the temporary loans paid were an average of 4 per cent of the current expenses for each year. The highest point was reached in 1931 when over 8 per cent of the current public school expenses were to redeem short-term loans.

North Dakota.--The trend of the use that has been made of warrants and certificates of indebtedness as a means of financing the schools of North Dakota is shown in Figure 18. During the twenty year period covered by the data from 1919 to 1938, the amount of warrants and certificates of indebtedness outstanding at the end of each year averaged 21 per cent of the total expenditures. The highest point was reached in 1922 when such outstanding obligations were 51 per cent of the total expenditures for the public schools of North Dakota. The use of short-term warrants and certificates of indebtedness was greater during the depression of the early 1920's than at any other time. In 1933 and 1934 the short-term paper outstanding was about 26 per cent of the total expenditures. A slight decrease is noted during the next two years but by 1938 the unpaid warrants and certificates of indebtedness had reached 29 per cent--a sum greater than that of the depression years of 1933 and 1934. The data in Figure 19 show that the economic depression in each of the last two decades had a profound effect upon the finances of the public schools of North Dakota.

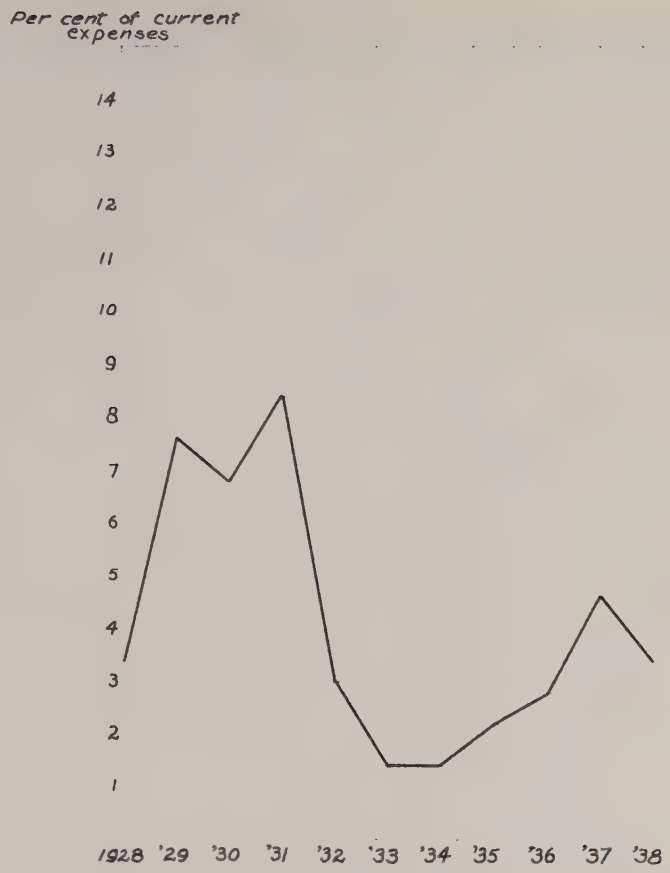

Fig. 17.--Percentage of short-term loans paid by the schools of Indiana from 1928 to 1938.

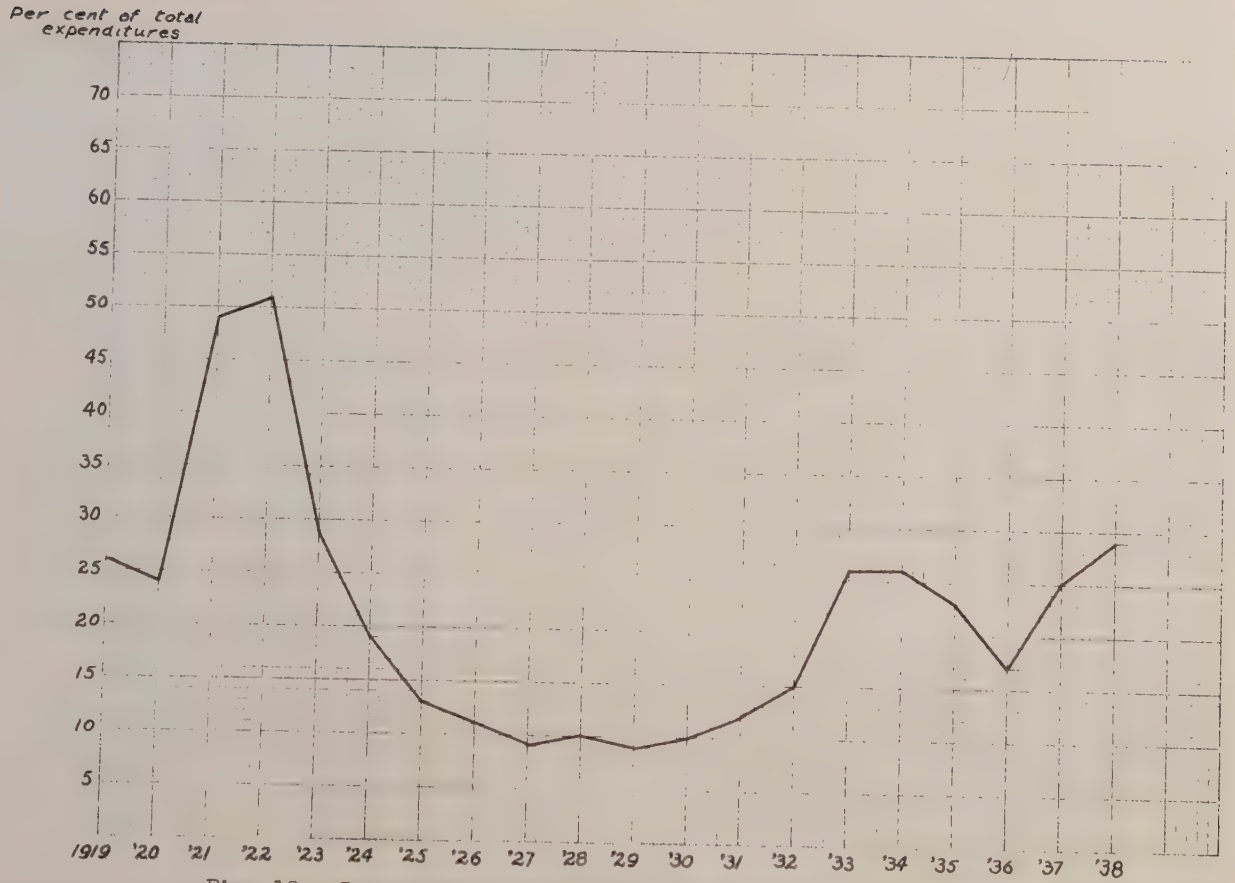

Fig. 18.--Percentage of warrants and certificates of indebtedness outstanding at the end of the year in the schools of North Dakota from 1919 to 1938.

Pennsylvania.--The pattern of short-term financing by the public schools of Pennsylvania follows the same general trend as that of North Dakota. Figure 19 shows the payments of temporary loans made from 1921 to 1936 inclusive. The highest point was reached in 1922 when about 20 per cent of the current expenses were for the repayment of money borrowed for a short period of time. A marked increase is evident in 1934 when the loans paid were over 13 per cent of the current expenses. During the entire sixteen years covered by the data the payments of short-term obligations averaged 10 per cent of the current expenses for public school purposes in Pennsylvania.

Georgia.--School districts in the State of Georgia may borrow practically 100 per cent of the money which will be received from the current year's taxes and state aid.[1] Figure 20 indicates the receipts from short-term loans by the schools of the state for eleven years. The average yearly borrowing done against anticipated revenue was 10 per cent of the total receipts for the years shown in the graph. The maximum was reached in 1930 when 15 per cent of the total receipts were from money borrowed for a short time. From the data it appears that as a whole, the school districts have not had to use the extensive borrowing power granted to them by the statutes.

It has been evident from the data presented in Figures 7 to 20 that the necessity for short-term financing by the schools of these states increases during depression years.

Short-Term Borrowing as a Normal Procedure in Conducting School Business

In some instances short-term borrowing is considered a normal method of doing business by the schools. This is especially

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[1]Georgia Code, 1937, chap. 32-921.

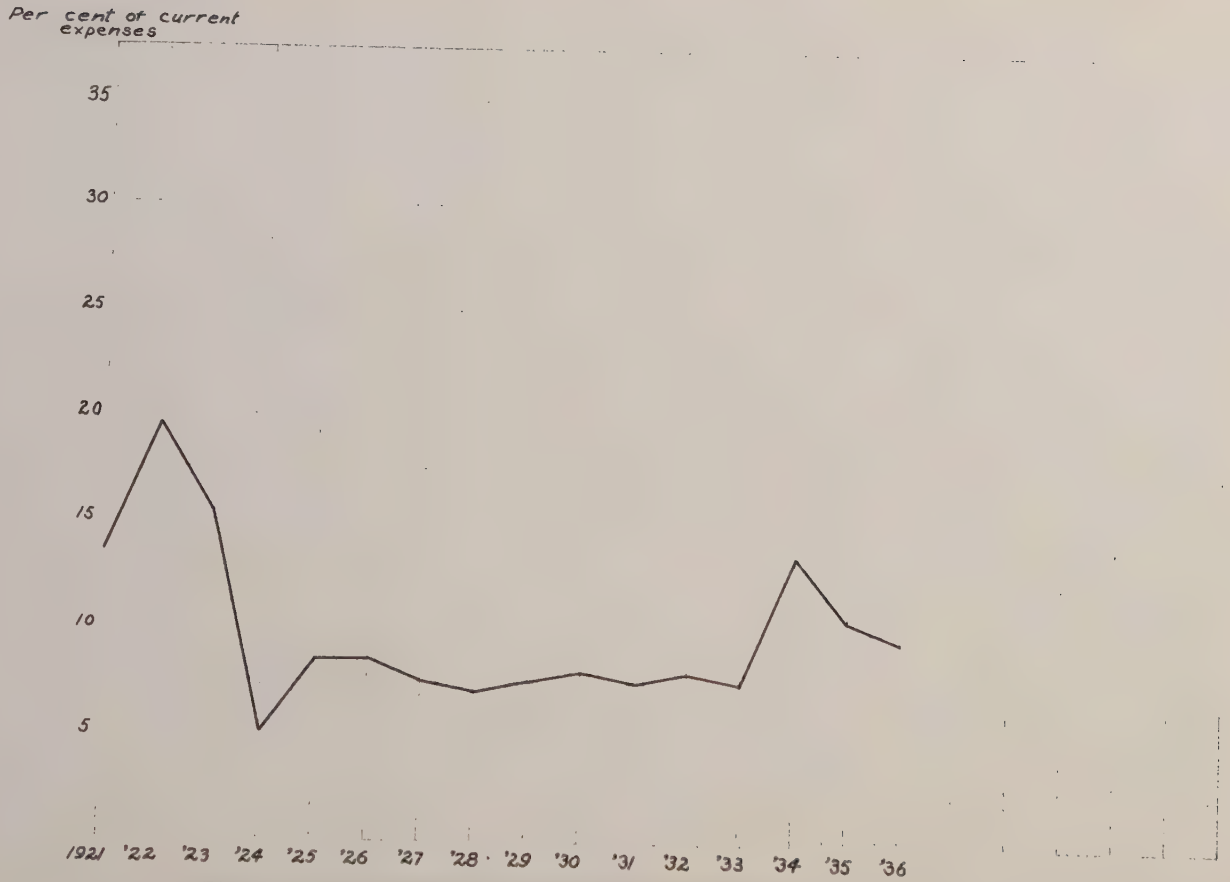

Fig. 19.--Percentage of short-term loans paid by the schools of Pennsylvania from 1921 to 1936.

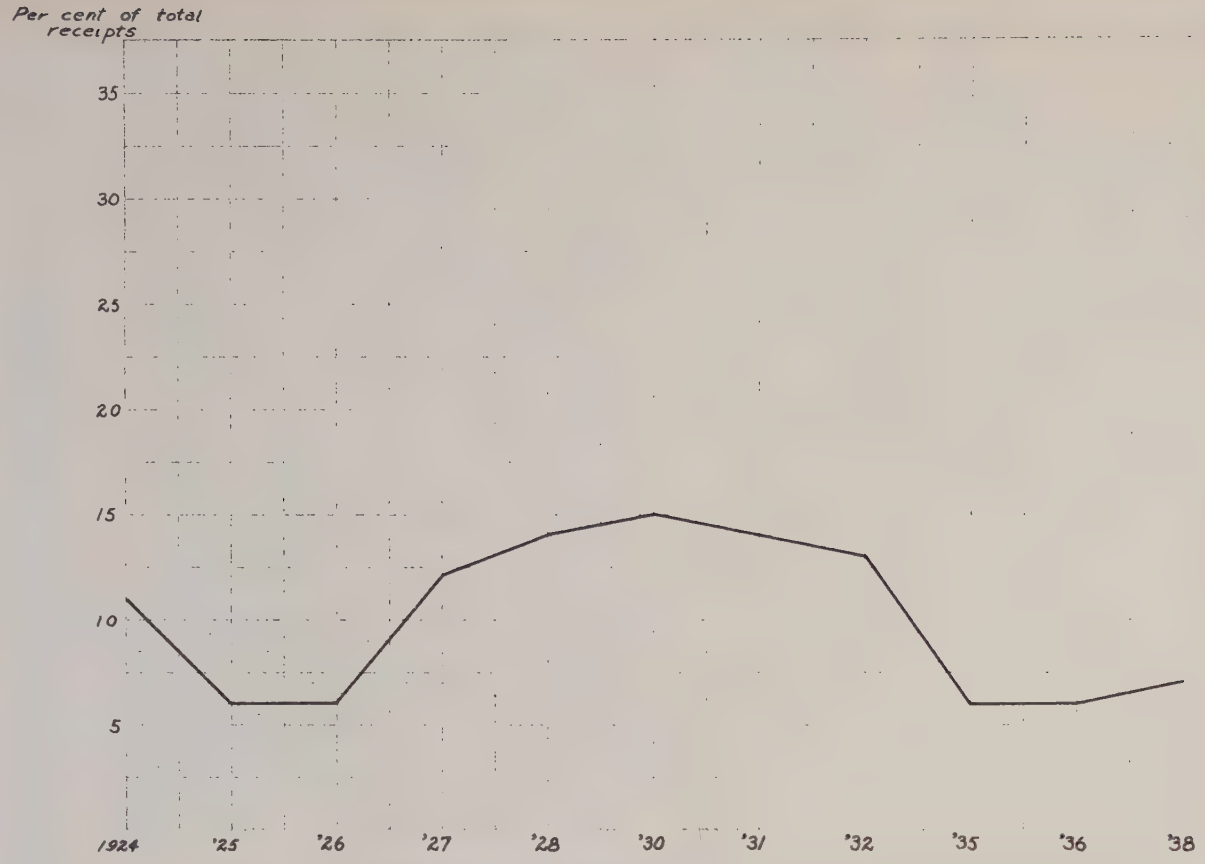

Fig. 20.--Percentage of receipts from short-term loans by the schools of Georgia 1924 to 1928, 1930 to 1932, 1935, 1936, and 1938.

true when there is a lack of co-ordination between the budget or fiscal year, and the tax collection year. A school budget year might begin on July first while the taxes for the same period are often not paid until November. The cost of operating the schools during the intervening period must be paid from reserve funds or from money borrowed in anticipation of the taxes or other funds to be received. Inasmuch as the policy of accumulating large reserves is not generally sanctioned or permitted by statute, short-term borrowing is done until the regular revenue for school purposes is made available. The process soon becomes established as a regular procedure and shows little variation from year to year.

There appears to be no inherent difficulties in this method of meeting financial needs but a readjustment of the tax collection period could in many cases eliminate the necessity for such temporary loans. The following quotation indicates that this effort is being made in certain areas.

> This adjustment has been made in a number of cities and states throughout the country. For example, in Philadelphia the fiscal year, tax year, and calendar year coincide and the tax rate is fixed in the preceding December. . . . . The same is true of Schenectady, where a saving in interest charges of $95,000 a year over previous methods is reported. In Des Moines the city tax year begins January 1, while the fiscal year starts April 1--thus providing a three-month "margin of safety"; here, also, the situation is safeguarded by adopting the budget prior to January 1. In Kansas City, Missouri, the gap between fiscal and tax collection years has been reduced to approximately one month. In Minneapolis the tax year and the fiscal year are the same, with only a two-month period when temporary loans may be required.
>
> In all Kansas municipalities, one-half the city taxes for the next succeeding fiscal year (which is the calendar year) must be paid by December 20, insuring a satisfactory balance with which to finance municipal expenses during the first half of the new year. Semi-annual collection of taxes prevails likewise in Minnesota and in nine Connecticut cities which have included this provision in their special charters.[1]

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[1]Massachusetts Institute of Technology, Temporary Tax Loans, A Report Prepared by the Division of Municipal and Industrial Research (Cambridge: Massachusetts Institute of Technology, 1930).

It is apparent that a practical working relationship between the budget and tax year could avoid entirely or at least in part the necessity of borrowing money for the meeting of the current expenditures of a school district, or any other subdivision of the state dependent upon tax collections for its revenue.

New Hampshire.--Short-term borrowing is a normal financial procedure in the schools of New Hampshire. Figure 21 indicates the short-term loans paid by the school officials over a period of seventeen years from 1920 to 1937 inclusive. It is evident from the data that the money borrowed on temporary loans has not been very great. In no year have the repayments been as much as 2 per cent of the current expenses. Likewise, there has not been any great variation during depression years. The amount of short-term borrowing done remains quite stable. During the entire seventeen year period covered by the data the short-term loans paid averaged less than 1 per cent of the current expenses for the public schools of New Hampshire.

Maryland.--The graph of the short-term loans paid by the schools of Maryland shows the same general trend as that of New Hampshire. Borrowing for short periods of time seems to be a normal procedure in conducting the school business. The amount of such obligations paid seldom exceeds 2 per cent of the current expenses. Figure 22 shows the short-term loans paid from 1919 to 1937 inclusive. During the nineteen years covered by the data, the loans paid averaged about 1 per cent of the current expenses.

Colorado.--Figure 23 shows the school warrants outstanding at the end of the year in Colorado from 1917 to 1936 inclusive. It is apparent that there have not been such sharp "peaks" and "low points" in the use of tax warrants in Colorado as was so evident in the data of most states discussed in this chapter. Apparently

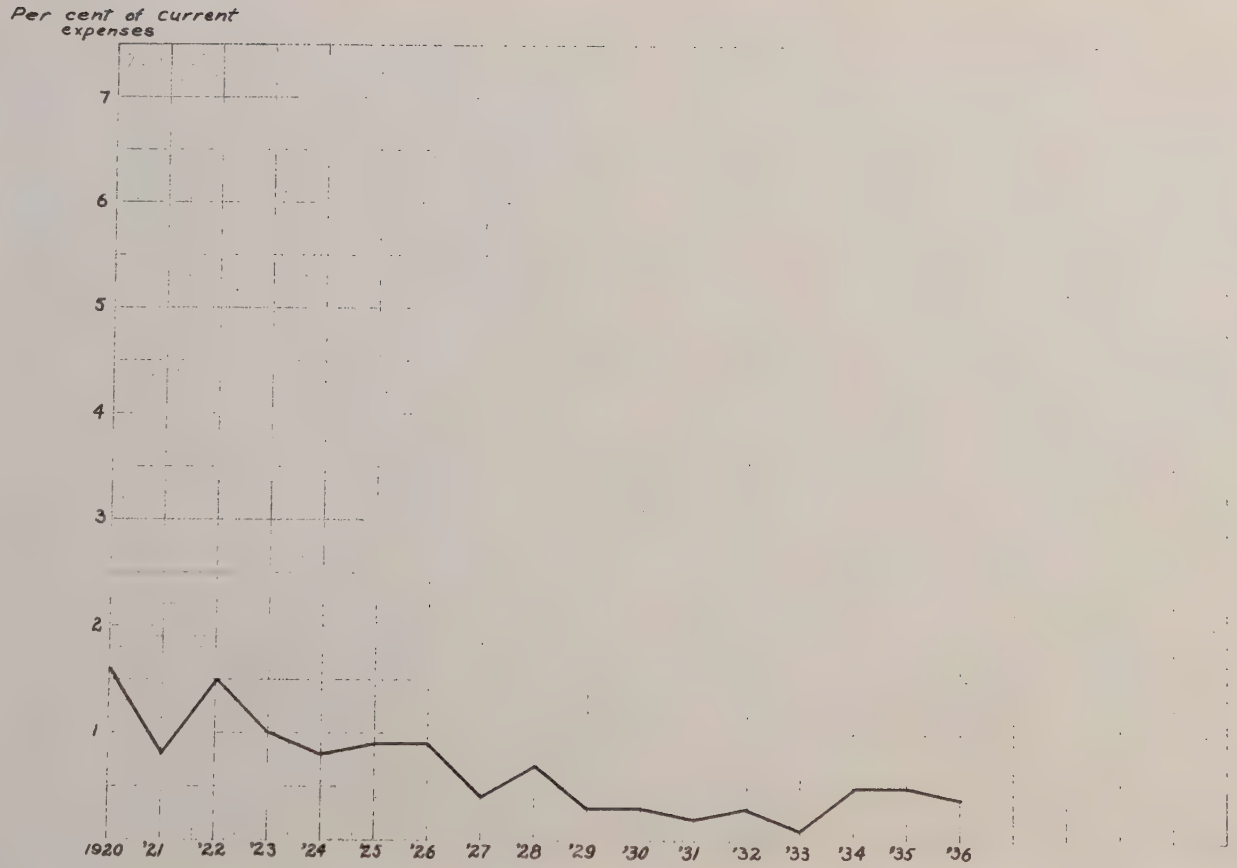

Fig. 21.--Percentage of short-term loans paid by the schools of New Hampshire from 1920 to 1936.

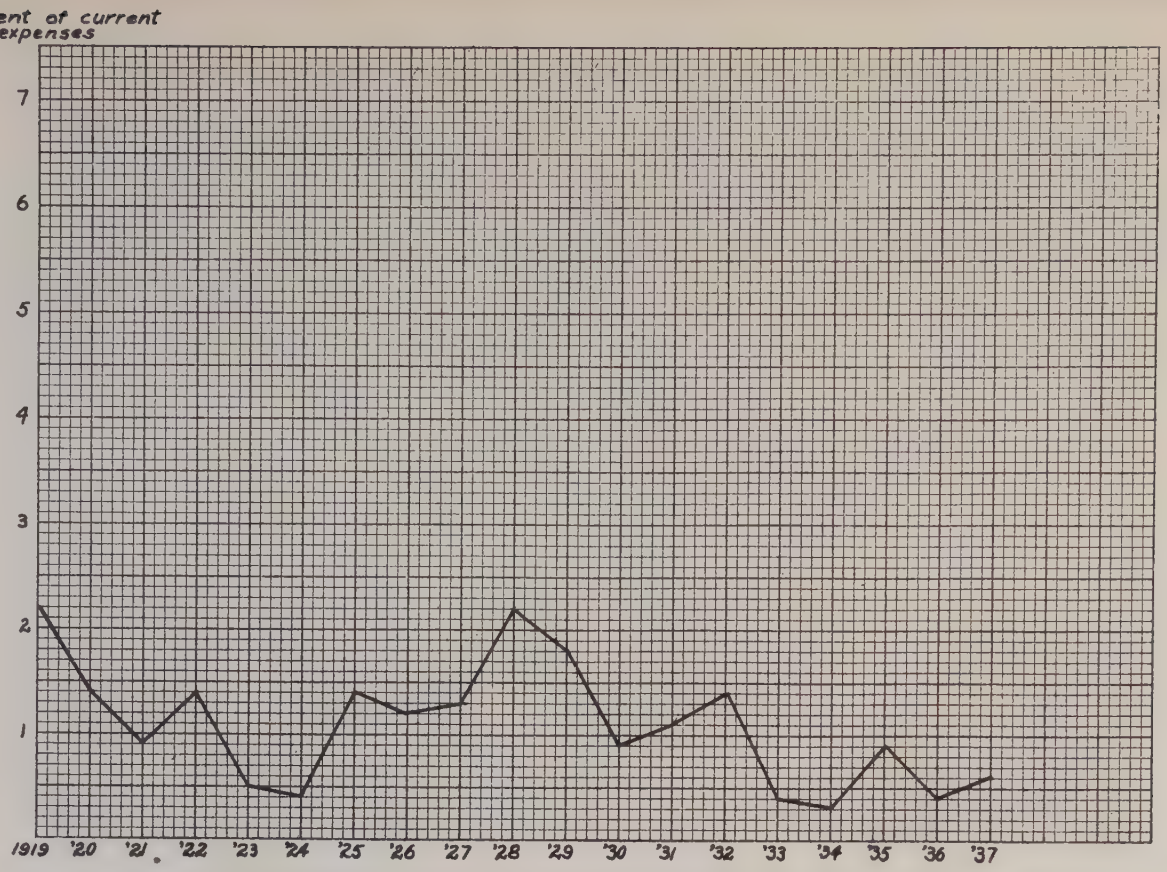

Fig. 22.--Percentage of short-term loans paid by the schools of Maryland from 1919 to 1937.

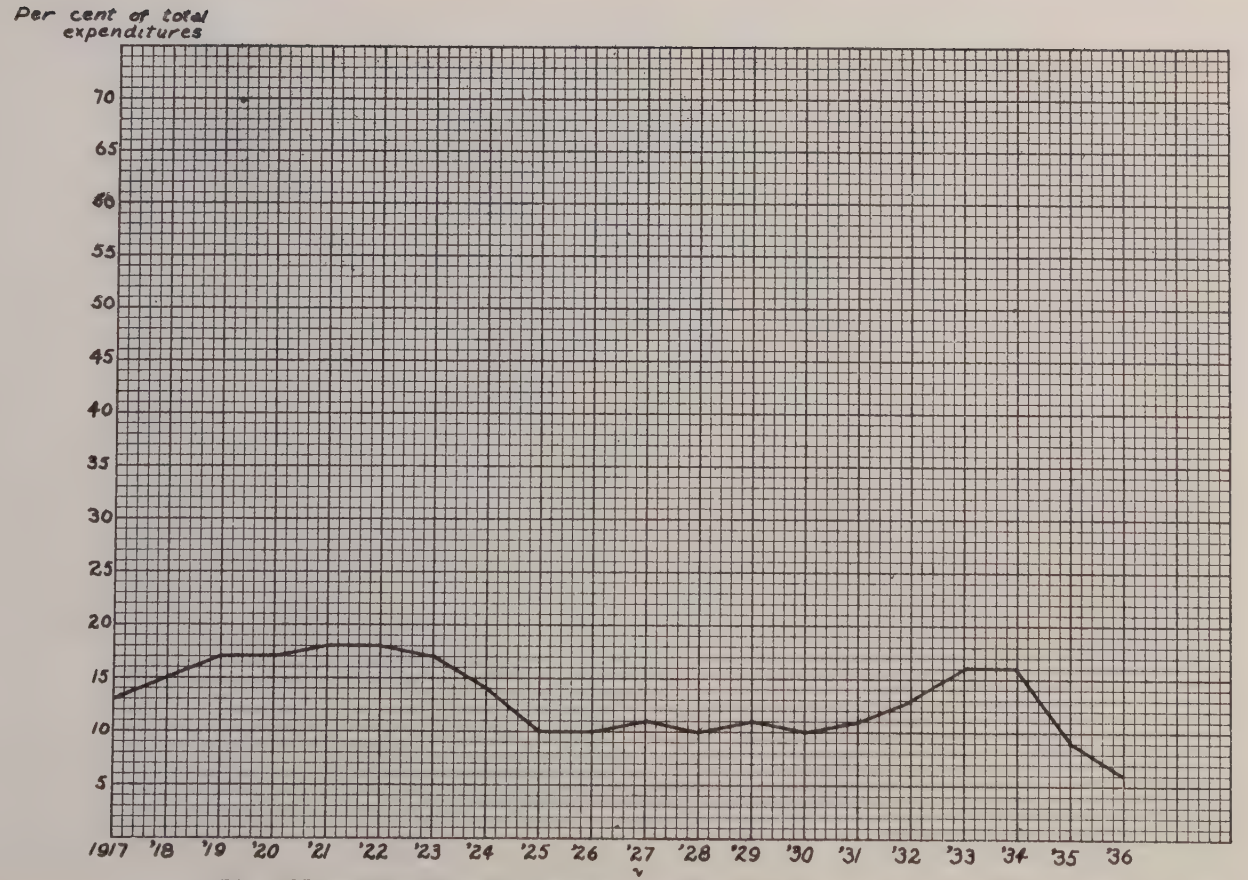

Fig. 23.--Percentage of warrants outstanding at the end of the year in the schools of Colorado from 1917 to 1936.

the use of warrants has become a normal procedure in the business operations of the public schools of Colorado.

New York.--A special law to meet financial emergencies in school districts upon the closing of a bank in which the school funds are deposited exists in the State of New York. "Upon the failure, insolvency, or suspension of any banking institution, which held money on deposit for the account of a . . . . school district" the school authorities may borrow an amount equal to the money on deposit and issue bonds or other obligations as evidence of the debt.[1]

In addition to the above emergency regulation, school boards in the State of New York may borrow in anticipation of taxes remaining uncollected for the current fiscal year and in anticipation of the revenue to be apportioned by the state during the current fiscal year. The data in Figure 24 show the short-term loans paid by the school districts of New York from 1923 to 1936 inclusive. It can be observed that the amount of borrowing done under the provisions of the statutes is not a very large percentage of the total cost of operating the schools. During the fourteen year period covered by the data, the short-term loans paid annually were about 2 per cent of the current expenses. It is evident that the highest point was reached in 1927 when the repayments on temporary loans were 4 per cent of the current expenses for public education in the State of New York. Since 1931 money paid for the redemption of short-term loans has been less than 1 per cent of the current educational expenses. As far as short-term borrowing was concerned, the depression of the early 1930's did not stimulate its use. In fact, the schools actually did less short-term financing

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[1]Cahill's Consolidated Laws of New York, 1931-35 Supplement, chap. 26, sec. 9-a.

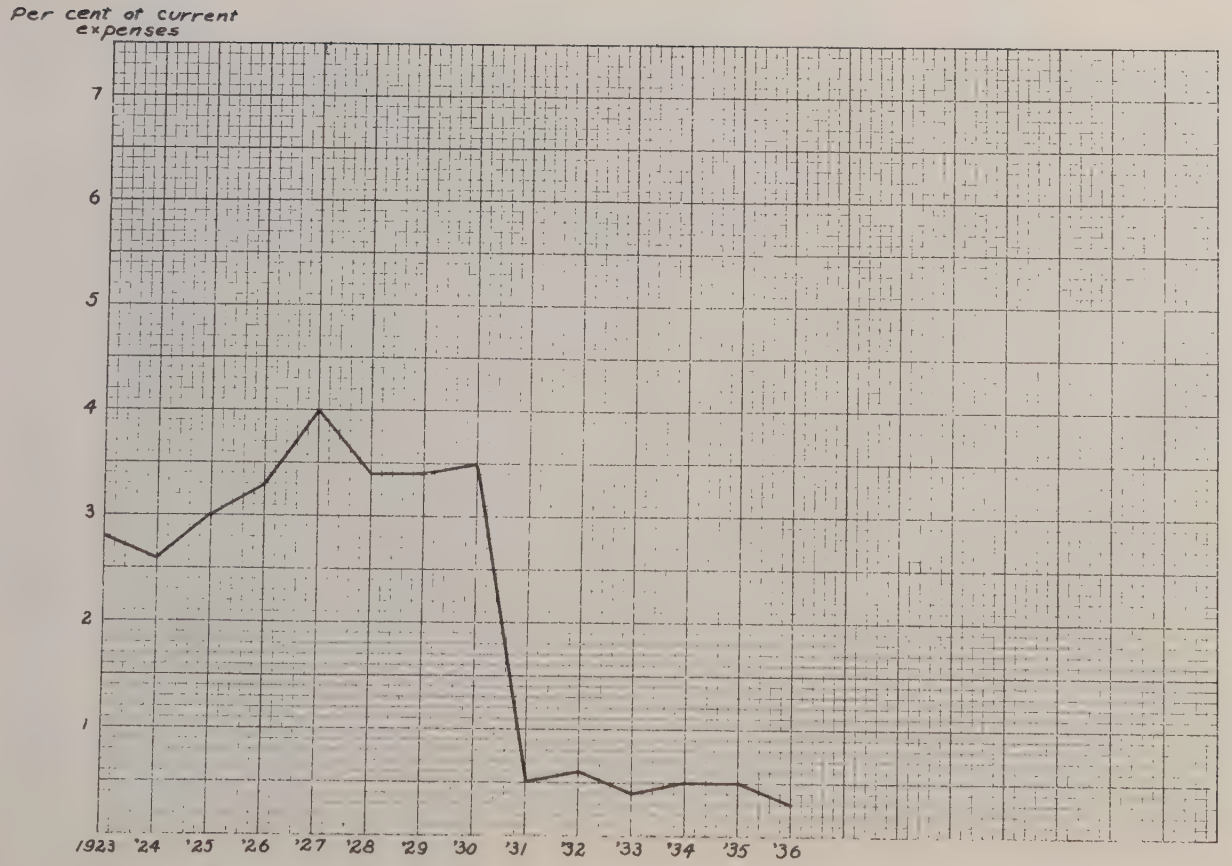

Fig. 24.--Percentage of short-term loans paid by the schools of New York from 1923 to 1936.

than previously. Since 1931 the amount of borrowing done has remained about the same and appears to be a normal procedure in school business.

Wisconsin.--The data in Figure 25 show the trend of the short-term borrowing done by the school districts of Wisconsin from 1917 to 1938. The highest point was reached in 1921 when 15 per cent of the total receipts were from short-term loans. During recent years there has been a decrease in the percentage of borrowing necessary, but it is evident from the graph that some borrowing is done each year as a normal procedure in the financial operations of the schools.

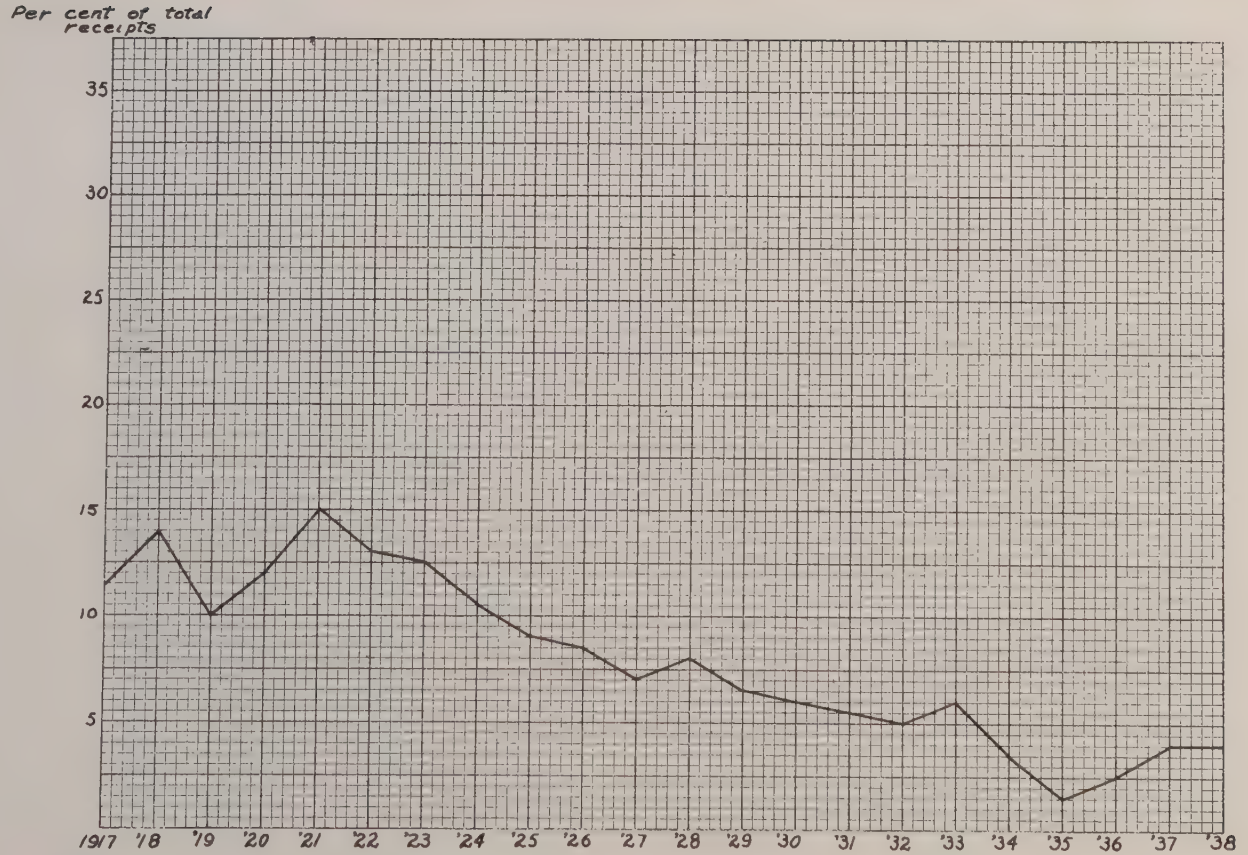

Fig. 25.--Percentage of total receipts derived from short-term loans by the schools of Wisconsin from 1917 to 1938.

CHAPTER VI

COST OF SHORT-TERM BORROWING

Types of Expenses Involved in Short-Term Borrowing

The actual costs of short-term borrowing to the school tricts are of two distinct types. The first of these is the money paid for interest on the tax anticipation warrants or loans, and the second is the incidental expense paid in their issuance for such items as printing, attorney's fees, commissions, and legal opinions. Data in regard to interest payments on short-term loans for a period of years are available for the States of Washington, Idaho, South Dakota, North Carolina, Utah, Wisconsin, Pennsylvania, Tennessee, Arizona, and Louisiana. There are no cumulative records available that show the amounts required for the incidental expenses incurred in connection with short-term borrowing on a state wide basis.

Interest Costs

That borrowing is an expensive device for schools is frequently emphasized in survey reports and other writings in this field. It is noted that often the interest paid on a debt amounts to more than the debt itself. The following quotation from Halsey is illustrative.

> At four per cent the original sum will double itself in a little over 17½ years of compound interest (semi-annual). At five per cent the time is a little over 14 years; at six, 11 years, 265 days; at seven, 10 years, 27 days; and at Florida's much used rate of eight per cent, the time required to double capital is only 8 years, 305 days. Thus, it is argued, a Florida county erecting

> a school building with proceeds from an eight per cent time warrant issue really pays double the cost, even if the warrants run a little less than nine years.[1]

It is important, therefore, that school boards borrow at an interest rate as low as possible. Just what could be the "lowest" rate for school districts in any area and what procedures could be established to secure the lowest rate with regularity can not be definitely determined. Other factors being equal, it would seem that a statute which outlines in detail the processes for the issuance of warrants as respecting interest rates, competitive bidding, and an advertisement of their being offered for sale, should result in the best deal for the school district. Competitive bidding has long been used by the federal government with satisfactory results.

Washington.--The schools in the State of Washington have made considerable use of tax warrants in their financial operations. The present maximum interest rate allowed on warrants in that state is 8 per cent. Complete data on the interest costs to the schools is available for the years 1894 to 1936 inclusive. From Table 36 it can be observed that during the forty-three years covered in the table a total of $9,190,044 was spent for interest on warrants. This represents an average of 2.12 per cent of the total expenditures for schools and 2.85 per cent of the current expenses for the years reported. In other words, an average of $213,722 was spent each year for forty-three years for interest on tax warrants by the schools of the State of Washington.

The data in Table 36 also reveal that there has been a marked decline in the per cent of funds spent for interest in

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[1]Henry Rowland Halsey, Borrowing Money for the Public Schools, p. 68. New York: Bureau of Publications, Teachers College, Columbia University, 1929.

TABLE 36

TOTAL EXPENDITURES, CURRENT EXPENSES, AND INTEREST PAID ON SCHOOL WARRANTS BY THE SCHOOLS OF WASHINGTON FOR THE YEARS 1894 TO 1936

Year	Total Expenditures	Current Expenses	Interest on Warrants		
			Interest Paid on Warrants	Per Cent of Total Expenditures	Per Cent of Current Expenses
1936	$27,026,735	$23,333,710	$88,980	0.33	0.38
1935	23,254,706	20,529,269	236,920	1.02	1.15
1934	21,814,719	19,401,523	599,931	2.75	3.09
1933	24,065,701	21,739,160	554,386	2.30	2.55
1932	30,432,384	26,377,735	387,252	1.27	1.47
1931	33,546,029	28,067,303	308,675	0.92	1.10
1930	33,253,779	27,694,802	316,178	0.95	1.14
1929	33,306,832	27,269,742	284,203	0.85	1.04
1928	32,265,850	26,237,518	265,153	0.82	1.01
1927	31,214,225	25,150,786	285,184	0.91	1.13
1926	30,485,473	24,325,053	279,351	0.92	1.15
1925	28,554,432	23,195,876	321,824	1.13	1.39
1924	27,134,474	22,490,269	349,794	1.29	1.56
1923	27,038,096	21,853,629	392,053	1.45	1.79
1922	28,571,968	22,057,549	447,870	1.57	2.03
1921	28,489,927	22,560,545	338,417	1.19	1.50
1920	20,789,843	16,950,004	203,826	0.98	1.20
1919	15,759,512	13,531,556	148,360	0.94	1.10
1918	15,189,030	12,017,339	134,737	0.89	1.12
1917	14,123,824	11,136,046	147,513	1.04	1.32
1916	13,080,271	10,537,665	200,996	1.54	1.91
1915	13,351,723	10,695,910	182,946	1.37	1.71
1914	13,202,389	9,876,627	230,499	1.75	2.33
1913	12,598,443	9,134,289	175,777	1.40	1.92
1912	10,475,974	8,420,037	204,658	1.95	2.43
1911	10,813,501	7,656,059	224,298	2.07	2.93
1910	10,022,830	6,740,531	236,592	2.36	3.51
1909	8,318,855	5,744,209	223,898	2.69	3.90
1908	6,582,659	4,409,436	160,353	2.44	3.64
1907	5,291,342	3,801,212	173,991	3.29	4.58
1906	4,670,811	3,342,866	131,612	2.82	3.94
1905	4,185,729	2,793,832	126,218	3.02	4.52
1904	3,917,463	2,754,738	103,905	2.65	3.77
1903	3,518,205	2,351,516	91,961	2.61	3.91
1902	2,775,160	1,945,360	80,569	2.90	4.14
1901	2,231,703	1,710,296	65,445	2.93	3.83
1900	2,364,089	1,735,982	95,998	4.06	5.53
1899	1,774,984	1,296,089	71,619	4.03	5.53
1898	1,794,626	1,340,586	111,892	6.23	8.35
1897	1,185,941	959,483	59,142	4.99	6.16
1896	1,423,056	1,015,860	66,996	4.71	6.60
1895	1,165,907	802,122	33,847	2.90	4.22
1894	1,523,650	927,611	46,223	3.03	4.98
Total	.....	.....	$9,190,044	....	....
Mean	.....	.....	213,722	2.12	2.85

recent years. The highest point was in 1898 when 6.23 per cent of the total expenditures and 8.35 per cent of the current expenses were for the payment of interest costs on warrants. The lowest point in interest payments during the forty-three year period covered by the data was in 1936 when .33 per cent of the total expenditures and .38 per cent of the current expenses were for interest on tax warrants issued by the school districts of the State of Washington. It is also apparent that the amounts spent for interest increased considerably during the depression years of the early 1920's and 1930's.

Idaho.--The schools in the State of Idaho have also made extensive use of tax warrants. The maximum interest rate allowed in the state is 6 per cent. Table 37 gives complete data on the interest payments on warrants over a period of sixteen years (1923 to 1938). It is revealed that on the average during this period 1.68 per cent of the total expenditures for public school purposes in Idaho was for the payment of interest on tax warrants. This amounted to a total of $2,694,981 or an average of $168,374 per year for the period covered by the data.

South Dakota.--The data in Table 38 indicate the interest cost of warrants in the State of South Dakota from 1905 to 1938 inclusive. During the thirty-four year period covered by the data, a total of $4,324,666 was spent for interest on warrants. This is an average of 1.13 per cent of the total expenditures for public school purposes in the State of South Dakota for these years. The actual amount of money spent for interest averaged $127,196 for each of the thirty-four years. The range in interest cost is from .71 per cent of the total expenditures in 1938 to 1.56 per cent in 1909.

Wisconsin.--The interest cost on short-term loans in the

schools of Wisconsin are recorded in Table 39. During the twenty-two year period represented by the data, a total of $6,214,311 was spent by the school districts of this state for interest on money borrowed for short periods of time. The average annual cost was $282,469 and the average per cent of the total expenditures was 1.42 per cent. The highest point was reached in 1926 when $484,373 was spent for interest. This was equivalent to 2.11 per cent of all the money spent that year by school districts of Wisconsin.

TABLE 37

TOTAL EXPENDITURES AND INTEREST PAID ON WARRANTS BY THE SCHOOLS OF IDAHO FOR THE YEARS 1923 TO 1938

Year	Total Expenditures	Interest on Warrants	
		Amount Paid on Warrants	Per Cent of Total Expenditures
1938	$11,293,986	$78,722	0.70
1937	10,722,552	78,747	0.73
1936	10,043,694	138,238	1.38
1935	9,084,877	362,822	3.99
1934	7,757,366	199,516	2.57
1933	8,340,165	151,358	1.81
1932	10,097,168	198,236	1.96
1931	11,409,619	177,284	1.55
1930	11,650,814	207,629	1.78
1929	11,673,486	290,260	2.49
1928	10,906,624	164,138	1.50
1927	10,344,586	124,751	1.21
1926	10,053,454	100,257	1.00
1925	10,047,820	129,572	1.29
1924	9,803,915	113,002	1.15
1923	9,845,197	180,389	1.83
Total . .	.....	$2,694,981	....
Mean. . .	.....	168,374	1.68

Tennessee.--Complete data on the interest cost of the short-term loans negotiated by the schools of Tennessee from 1929 to 1938 inclusive are recoreded in Table 40. A total of $4,664,182 was spent for interest during the ten year period. This was a yearly average of $466,418 of 1.8 per cent of the total expenditures

TABLE 38

PUBLIC SCHOOL EXPENDITURES AND INTEREST PAID ON WARRANTS BY THE SCHOOLS OF SOUTH DAKOTA FROM 1905 TO 1938

Year	Total Expenditures	Interest on Warrants	
		Interest Paid on Warrants	Per Cent of Total Expenditures
1938 . . .	$15,153,684	$108,204	0.71
1937 . . .	15,474,166	125,777	0.81
1936 . . .	15,118,987	163,125	1.08
1935 . . .	14,151,294	177,158	1.25
1934 . . .	13,022,311	168,675	1.30
1933 . . .	14,230,338	127,309	0.89
1932 . . .	17,725,340	143,236	0.81
1931 . . .	18,994,045	200,621	1.06
1930 . . .	19,213,610	212,882	1.11
1929 . . .	18,980,614	199,351	1.05
1928 . . .	18,274,766	212,288	1.16
1927 . . .	17,885,299	210,550	1.18
1926 . . .	18,436,263	237,868	1.29
1925 . . .	17,736,946	222,697	1.26
1924 . . .	18,425,309	196,732	1.08
1923 . . .	18,237,048	247,716	1.36
1922 . . .	18,192,749	227,441	1.25
1921 . . .	15,954,924	162,937	1.02
1920 . . .	11,620,117	116,681	1.00
1919 . . .	7,731,779	85,525	1.11
1918 . . .	7,863,316	80,762	1.03
1917 . . .	6,764,693	62,997	0.93
1916 . . .	6,552,577	68,122	1.04
1915 . . .	5,953,091	76,146	1.28
1914 . . .	5,413,063	64,222	1.19
1913 . . .	5,189,803	70,236	1.35
1912 . . .	4,984,327	63,054	1.27
1911 . . .	4,635,568	54,915	1.18
1910 . . .	4,068,012	54,177	1.28
1909 . . .	3,749,259	58,306	1.56
1908 . . .	3,152,006	46,266	1.47
1907 . . .	2,800,613	32,837	1.17
1906 . . .	2,711,570	27,036	1.00
1905 . . .	2,488,408	20,817	0.84
Total .	.....	$4,324,666	....
Mean. .	.....	127,196	....
Range .	.....	.....	0.71--1.56

and 2.47 per cent of the current expenses. The maximum interest rate allowed by the statutes is 6 per cent. During the depression years of the early 1930's the annual interest cost on short-term loans was in excess of a half million dollars.

TABLE 39

TOTAL EXPENDITURES AND INTEREST PAID ON SHORT-TERM LOANS BY THE SCHOOLS OF WISCONSIN FROM 1915 TO 1936

Year	Total Expenditures	Interest on Short-Term Loans	
		Interest Paid on Loans	Per Cent of Total Expenditures
1936 . . .	$18,626,016	$263,519	1.42
1935 . . .	17,649,076	278,877	1.58
1934 . . .	17,833,450	289,668	1.62
1933 . . .	19,153,541	285,154	1.49
1932 . . .	22,678,204	322,843	1.42
1931 . . .	24,195,341	334,563	1.38
1930 . . .	24,789,210	395,800	1.60
1929 . . .	24,575,651	397,155	1.62
1928 . . .	24,714,770	390,269	1.58
1927 . . .	23,005,523	396,066	1.72
1926 . . .	22,910,869	484,373	2.11
1925 . . .	24,533,928	424,963	1.73
1924 . . .	23,197,617	412,199	1.78
1923 . . .	23,561,534	407,796	1.73
1922 . . .	23,182,162	315,973	1.36
1921 . . .	21,546,283	237,683	1.10
1920 . . .	15,167,534	158,057	1.04
1919 . . .	12,128,232	148,911	1.22
1918 . . .	11,361,696	118,049	1.04
1917 . . .	10,069,667	103,513	1.03
1916 . . .	9,387,865	83,541	0.89
1915 . . .	8,567,170	65,699	0.77
Total .	.....	$6,214,311	....
Mean. .	.....	282,469	1.42
Range .	.....	.....	0.77--2.11

Louisiana.--Short-term loans made by the school districts of Louisiana may draw interest at a rate not exceeding 7 per cent. The data in Table 41 show the amount of money spent for interest on short-term obligations from 1921 to 1937 inclusive. During the seventeen year period the total cost was $4,408,383. This is a yearly average of $259,317. An average of .91 per cent of the

total expenditures and 1.82 per cent of the current expenses was paid annually for interest on short-term loans.

TABLE 40

TOTAL EXPENDITURES, CURRENT EXPENSES, AND INTEREST PAID ON SHORT-TERM LOANS BY THE SCHOOLS OF TENNESSEE FROM 1929 TO 1938

Year	Total Expenditures	Current Expenses	Interest on Short-Term Loans		
			Interest Paid on Loans	Per Cent of Total Expenditures	Per Cent of Current Expenses
1938	$25,009,295	$21,534,944	$325,977	1.30	1.51
1937	24,473,388	19,297,951	309,978	1.27	1.61
1936	22,780,318	18,338,965	411,129	1.80	2.24
1935	20,257,388	17,189,274	537,377	2.65	3.13
1934	29,132,414	16,756,401	582,605	2.00	3.48
1933	23,372,318	17,603,058	568,470	2.43	3.23
1932	30,216,911	19,609,460	608,891	2.02	3.11
1931	29,019,446	21,048,694	598,151	2.06	2.84
1930	29,421,265	20,613,991	409,217	1.39	1.99
1929	28,775,510	19,501,748	312,387	1.09	1.60
Total	.....	.....	$4,664,182	....	....
Mean	.....	.....	466,418	1.80	2.47
Range	.....	.....	.....	1.09-2.65	1.51-3.48

North Carolina.--The interest cost on money borrowed for short periods of time by the schools of North Carolina is shown in Table 42. During the twenty-two years from 1916 to 1937 inclusive the total amount spent for interest was $4,226,340. This is equivalent to $192,106 annually or .60 per cent of the total expenditures and 1.02 per cent of the current expenses for the period.

Pennsylvania.--Although the amount of money spent for interest on short-term loans in Pennsylvania is more than that of the states previously discussed, the actual percentage that it is of the total cost of public education is less. The data in Table 43 show the amounts spent for interest by the school districts of Pennsylvania from 1921 to 1936 inclusive. The total interest cost

for the sixteen years was $9,034,468. This represents an average annual expenditure of $564,654 to meet the cost of borrowing for short periods of time. An average of .32 per cent of the total expenditures and .47 per cent of the current expenses of the public schools of Pennsylvania was required by the interest cost of their short-term obligations.

TABLE 41

TOTAL EXPENDITURES, CURRENT EXPENSES, AND INTEREST PAID ON SHORT-TERM LOANS BY THE SCHOOLS OF LOUISIANA FROM 1921 TO 1937

Year	Total Expenditures	Current Expenses	Interest on Short-Term Loans		
			Interest Paid on Loans	Per Cent of Total Expenditures	Per Cent of Current Expenses
1937 . .	$32,212,296	$18,414,868	$126,118	0.40	0.68
1936 . .	25,966,677	15,643,264	210,439	0.81	1.35
1935 . .	28,024,666	15,216,928	341,698	1.22	2.25
1934 . .	26,886,553	12,288,251	359,422	1.34	2.92
1933 . .	25,968,557	12,192,284	381,391	1.47	3.13
1932 . .	32,137,398	15,908,425	346,282	1.08	2.18
1931 . .	34,094,047	17,062,854	219,934	0.65	1.29
1930 . .	32,272,871	16,514,993	253,420	0.79	1.53
1929 . .	32,678,192	16,617,838	231,333	0.71	1.39
1928 . .	32,010,297	16,175,601	236,791	0.74	1.46
1927 . .	33,308,269	15,240,276	251,327	0.75	1.65
1926 . .	30,774,743	14,310,284	256,837	0.83	1.79
1925 . .	29,176,862	13,913,141	283,234	0.97	2.04
1924 . .	29,007,935	12,770,406	295,226	1.02	2.31
1923 . .	25,430,686	13,149,232	239,114	0.94	1.82
1922 . .	22,370,682	12,586,110	197,374	0.88	1.57
1921 . .	20,533,195	11,476,581	178,443	0.87	1.55
Total	.....	.....	$4,408,383	....	....
Mean	.....	.....	259,317	0.91	1.82
Range	.....	.....	.....	0.40-1.47	0.68-3.13

Utah.--The interest cost of the short-term loans paid by the public schools of Utah is shown for the years from 1927 to 1938 in Table 44. The total interest payments during the period were $376,481, which is an average of $31,373 per year. The interest cost was equivalent to .28 per cent of the current expend-

itures for public school purposes. The greatest cost occurred in the depression year of 1933 when .68 per cent of the total expenditures and .87 per cent of the current expenses was used for the payment of interest on short-term loans.

TABLE 42

TOTAL EXPENDITURES, CURRENT EXPENSES, AND INTEREST PAID ON SHORT-TERM LOANS BY THE SCHOOLS OF NORTH CAROLINA FROM 1916 TO 1937

Year	Total Expenditures	Current Expenses	Interest on Short-Term Loans		
			Interest Paid on Loans	Per Cent of Total Expenditures	Per Cent of Current Expenses
1937 . .	$39,427,860	$25,550,073	$23,281	0.05	0.09
1936 . .	34,972,391	23,623,040	31,053	0.09	0.13
1935 . .	29,577,297	19,254,098	50,878	0.17	0.26
1934 . .	25,958,768	18,296,363	67,578	0.26	0.37
1933 . .	30,282,221	23,464,315	73,542	0.24	0.31
1932 . .	35,848,426	24,049,617	149,641	0.42	0.62
1931 . .	44,792,306	28,515,583	280,587	0.63	0.98
1930 . .	45,568,502	28,616,603	390,052	0.86	1.36
1929 . .	50,155,982	27,961,531	313,033	0.62	1.12
1928 . .	49,340,395	26,580,686	377,860	0.77	1.42
1927 . .	50,923,520	25,565,974	518,081	1.02	2.03
1926 . .	43,810,599	22,822,833	334,994	0.76	1.47
1925 . .	44,415,864	21,030,810	302,233	0.68	1.44
1924 . .	39,152,173	19,078,656	268,304	0.69	1.41
1923 . .	35,682,543	17,251,486	307,484	0.86	1.78
1922 . .	27,110,039	15,530,808	284,877	1.05	1.83
1921 . .	20,707,727	13,472,275	189,998	0.92	1.41
1920 . .	13,941,103	9,568,743	63,249	0.45	0.11
1919 . .	8,157,931	5,850,128	66,349	0.81	1.13
1918 . .	7,522,372	5,247,615	58,466	0.78	1.11
1917 . .	7,421,954	4,829,050	41,787	0.56	0.87
1916 . .	6,561,646	4,571,533	33,013	0.50	0.72
Total	.....	.....	$4,226,340	....	....
Mean	.....	.....	192,106	0.60	1.02
Range	.....	.....	.....	0.05-1.05	0.09-2.03

Summary of Interest Cost of Short-Term Borrowing

The data in Table 45 summarizes the interest cost of short-term loans for each year during the period from 1929 to 1936 in the States of Pennsylvania, Utah, North Carolina, Arizona,

Louisiana, South Dakota, Washington, Wisconsin, Tennessee, and Idaho. It is evident that the costs increased during the depression years of 1933, 1934, and 1935. The average interest cost was 1.04 per cent of the total expenditures for each of the eight years recorded in the data. By comparing Table 45 with Table 46 it can be observed that there is a difference of only .02 per cent in the average interest costs when considered for all the years and when considered for the same eight years in the same states. The average in the former is 1.06 per cent and in the latter it is 1.04 per cent.

TABLE 43

TOTAL EXPENDITURES, CURRENT EXPENSES, AND INTEREST PAID ON SHORT-TERM LOANS BY THE SCHOOLS OF PENNSYLVANIA FROM 1921 TO 1936

Year	Total Expenditures	Current Expenses	Interest on Short-Term Loans		
			Interest Paid on Loans	Per Cent of Total Expenditures	Per Cent of Current Expenses
1936 . .	$187,578,958	$138,280,781	$360,573	0.19	0.26
1935 . .	176,324,882	131,799,169	393,947	.22	.30
1934 . .	183,679,406	131,745,605	671,174	.37	.51
1933 . .	188,126,316	137,039,068	450,469	.24	.33
1932 . .	210,797,545	148,792,253	487,990	.23	.33
1931 . .	215,426,010	148,607,459	492,510	.23	.33
1930 . .	212,113,813	144,734,533	754,858	.35	.52
1929 . .	211,789,815	140,256,285	537,483	.25	.38
1928 . .	202,696,231	134,010,492	431,810	.21	.32
1927 . .	193,990,728	126,255,294	439,557	.23	.35
1926 . .	185,408,335	121,640,870	485,560	.26	.40
1925 . .	178,083,741	117,604,006	1,403,511	.79	1.19
1924 . .	166,632,841	109,794,534	277,662	.17	.25
1923 . .	152,031,654	100,546,704	714,110	.47	.71
1922 . .	129,344,699	90,889,655	651,915	.50	.72
1921 . .	111,459,798	82,040,641	481,339	.43	.59
Total	.....	.....	$9,034,468	....	....
Mean	.....	.....	564,654	0.32	0.47
Range	.....	.....	.....	0.19-0.79	0.26-1.19

The data in Figure 26 indicate that the percentage of the total expenditures paid for interest costs increased during the depression years of the early 1930's. The high point was reached in 1934 when about 1.5 per cent of all the money spent by the schools of the ten states represented by the data was for the payment of interest costs on short-term loans.

TABLE 44

TOTAL EXPENDITURES, CURRENT EXPENSES, AND INTEREST PAID ON SHORT-TERM LOANS BY THE SCHOOLS OF UTAH FROM 1927 TO 1938

Year	Total Expenditures	Current Expenses	Interest on Short-Term Loans		
			Interest Paid on Loans	Per Cent of Total Expenditures	Per Cent of Current Expenses
1938 . .	$12,122,550	$9,356,003	$14,251	0.12	0.15
1937 . .	12,625,576	8,929,897	9,030	.07	.10
1936 . .	11,202,286	8,384,451	5,988	.09	.07
1935 . .	10,190,313	7,715,439	7,358	.07	.10
1934 . .	8,816,480	7,334,392	16,100	.18	.22
1933 . .	9,433,445	7,350,360	63,981	.68	.87
1932 . .	10,706,524	8,189,987	36,547	.34	.45
1931 . .	12,973,400	8,968,030	50,748	.39	.57
1930 . .	12,393,165	9,032,451	44,109	.36	.49
1929 . .	12,092,901	8,723,187	51,696	.43	.59
1928 . .	11,121,980	8,547,959	36,350	.33	.43
1927 . .	11,394,447	8,215,905	40,323	.35	.49
Total	.....	.....	$376,481	....	....
Mean	.....	.....	31,373	0.28	0.38
Range	.....	.....	.....	0.07-0.68	0.07-0.87

TABLE 45

SUMMARY OF ANNUAL INTEREST COSTS ON SHORT-TERM LOANS IN TEN STATES
DURING THE EIGHT YEAR PERIOD FROM 1929 TO 1936

State	Per Cent of the Total Expenditures Spent for Interest									
	1929	1930	1931	1932	1933	1934	1935	1936	Total	Average
Pennsylvania . . .	0.25	0.35	0.23	0.23	0.24	0.37	0.22	0.19	2.08	0.26
Utah	0.43	0.36	0.39	0.34	0.68	0.18	0.07	0.09	2.54	0.32
North Carolina . .	0.62	0.86	0.63	0.42	0.24	0.26	0.17	0.09	3.29	0.41
Arizona.	0.25	0.24	0.14	0.24	0.42	0.69	0.68	0.70	3.36	0.42
Louisiana.	0.71	0.79	0.65	1.08	1.47	1.34	1.22	0.81	8.07	1.01
South Dakota . . .	1.05	1.11	1.06	0.81	0.89	1.30	1.25	1.08	8.55	1.07
Washington	0.85	0.95	0.92	1.27	2.30	2.75	1.02	0.33	10.39	1.30
Wisconsin.	1.62	1.60	1.38	1.42	1.49	1.62	1.58	1.42	12.13	1.52
Tennessee.	1.09	1.39	2.06	2.02	2.43	2.00	2.65	1.80	15.44	1.93
Idaho.	2.49	1.78	1.55	1.96	1.81	2.57	3.99	1.38	17.53	2.19
Total	9.36	9.43	9.01	9.79	11.97	13.08	12.85	7.89	83.38	....
Mean.	0.94	0.94	0.90	0.98	1.20	1.31	1.29	0.79	.....	1.04

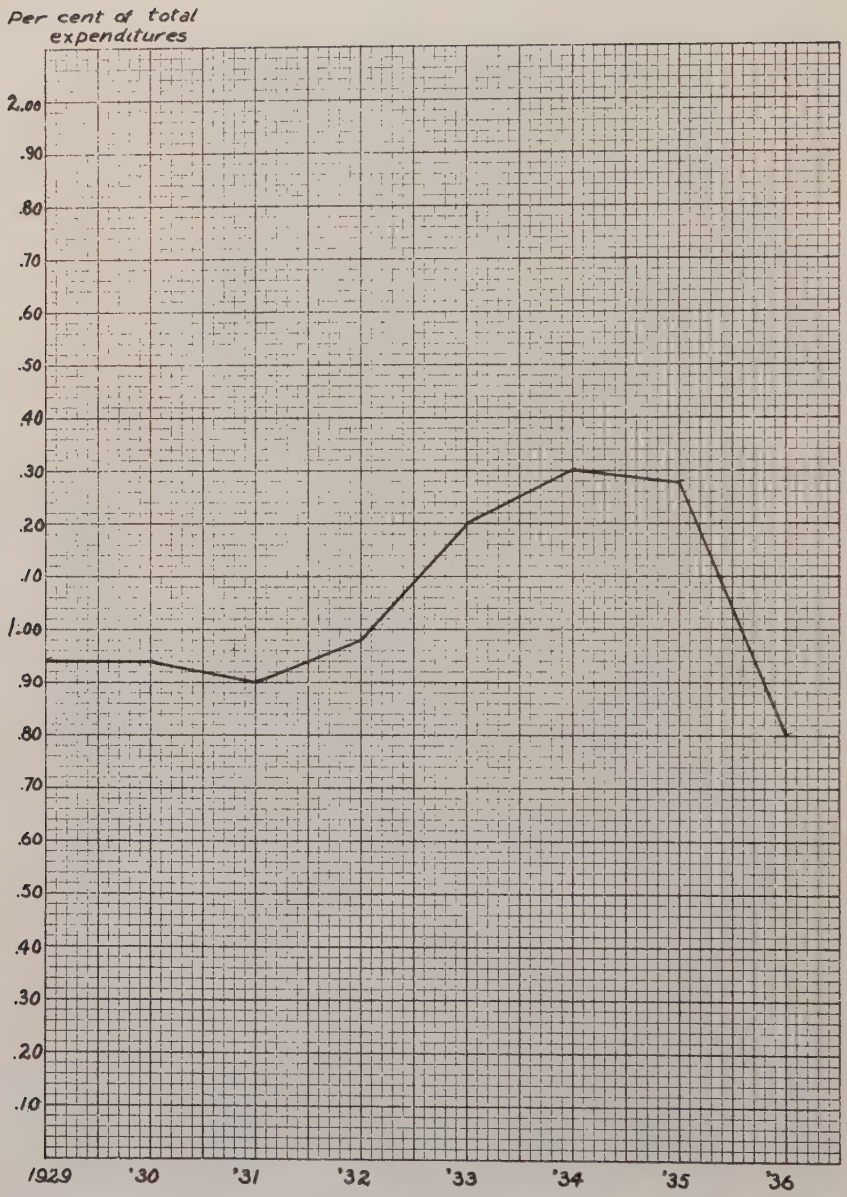

Fig. 26.--Average percentage of total expenditures represented by annual payments for interest on short-term loans in ten states from 1929 to 1936.

CHAPTER VII

ECONOMIC AND FISCAL FACTORS UNDERLYING SHORT-TERM BORROWING FOR SCHOOL PURPOSES

Introduction

The use of short-term loans by the public schools of the United States in accordance with statutory provisions reflects a general theory of public finance. Such loans are conditioned in part by the relationship between the time for paying taxes and the close of the fiscal year of governmental units. Other conditions which have a tendency to influence the use of short-term loans are changes in the economic situation, changes in state educational policies with respect to the amount of state aid apportioned, and unforeseen emergencies which make unusual demands upon school funds.

The attempt to limit by constitutional or statutory provision the burden of indebtedness which local governments can have outstanding at any time has in many cases proved a failure. It has been found possible to circumvent such limitations by raising the ratio of property assessments, pegged levies, and other means. In some states the legislatures have nullified the effects of constitutional debt limits by creating special governmental units to take over particular functions of government. Several states have an elementary district, a high school district, and a junior college district, each operating within certain limitations on indebtedness, but each unit having a debt incurring capacity.

It has been noted from the data on the statutory provisions regulating short-term borrowing that a variety of practices exists among the school districts of the different states. There has been

no agreement as to the percentage of anticipated funds that should be borrowed or on the exact duration of the loan after it has been negotiated. It has been apparent, however, that the authority to negotiate short-term loans is generally definitely fixed in school boards or some political unit of government from which they derive their powers. Likewise, the anticipated funds applicable to the current year's expenses form the basis against which short-term borrowing is done.

The courts have generally sustained the legality of short-term loans when school officials have acted in good faith in the negotiation of them. Even before specific laws relative to the use of warrants and short-term loans were explicitly written into statutes, the courts have sustained the actions of school boards by holding that they had "implied" power to borrow money and negotiate loans. In recent years the courts have interpreted and clarified the procedures pertinent to their use as recorded in the statutes.

Economic Theory

Considerable agreement is evident among students of public finance that a government should never resort to borrowing to finance its ordinary recurring current expenditures.[1] However, the argument is often advanced that public finance should make use of the credit plan in its operations. Under this theory the use of credit by units of government is said to have the following distinct advantages:

1. The taxpayer keeps his money longer.
2. It stimulates more careful budgeting.

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[1] William J. Shultz, American Public Finance and Taxation, p. 169. New York: Prentice-Hall, Inc., 1934 (revised). E. R. A. Seligman, Essays in Taxation, p. 725. New York: The Macmillan Co., 1921 (revised).

3. It promotes economy in operating costs.

The longer a taxpayer is able to retain his tax money in a productive capacity, the better he should be able to meet the governmental obligations which are assessed against him. By using their credit to the utmost, governmental units can extend the period of time that the taxpayer can use his tax money for his own purposes. In an effort to use credit extensively, the various units of government must resort to a careful budgeting of their purchases. Economies are effected which would not otherwise be sought if there were ample funds on hand for current use. These economies are a direct saving to the taxpayer. These reduced costs of operation in turn reduce the amount of money the taxpayer must provide for the proper functioning of government. Credit really represents a form of transaction in which the seller or lender relies upon the integrity and ability of the purchaser to pay at a future date. Ultimately the "costs" must be paid whether on a "credit" or a "loan" basis.

Administrative Factors

Certain administrative factors may affect the amount of short-term borrowing required by the schools. For example, the lack of co-ordination of the school year and the budget year, the school year and the fiscal year, and the time of payment of state aid, as well as the controls exercised on school budgets by outside agencies may all tend to influence the amount of borrowing necessary. These factors are usually beyond the direct control of the school authorities. If the fiscal year begins January 1, while taxes for the same year are not payable until October, the expenses of operation for the intervening nine months must be paid either from unexpended balances left over from the previous year or from revenues other than taxes. In very few instances are the revenues

received by the schools from such other sources sufficient to meet the normal costs of operation during this period. The result in such cases is that temporary borrowing becomes a permanent feature of municipal financing. With a proper adjustment of budget year to tax year such borrowing could be eliminated.

Budget commissions sometimes exercise certain controls upon the estimates submitted by school officials. The estimates may be reduced by them to a point where the actual funds available are not sufficient to support the regular educational program. It is then necessary to borrow funds or reduce the educational program so that it can be supported by the revenues available.

There is no uniformity among the states as to the time of disbursing the state aid appropriations to the respective school districts. Distributions are made annually, semi-annually, quarterly, or monthly. It would seem that the time of payment should coincide with the periods of greatest need in the schools.

Trends in Reform of State Tax Systems

During recent years there has been considerable agitation directed toward reducing the tax burden on real estate and personal property in the local units. This tendency partially transfers the responsibility for providing revenue for the operation of schools from the local community to the state. In order to relieve property from carrying the tax burden it is then necessary for the state to set up tax measures of a different type that will provide sufficient funds to operate the schools. The state thus assumes a greater responsibility for the support of schools and may reduce the local control exercised over school revenues.

Should the state-administered tax measures be set up in such a manner that the school funds are available for distribution when needed, the necessity for short-term borrowing would be

lessened. However, when the state is lax in making remittances or must default in its payments, it becomes necessary for the school district to borrow money in anticipation of the funds to be derived as state support. When the basic unit of school support is local taxation, the control is a local matter and the responsibility for payment of taxes and provision of operating funds is centered in the local school district. It is evident, therefore, that the amount of short-term borrowing necessary by school districts under state-administered tax measures may be increased or decreased depending upon the amount and manner of the distribution of state funds.

The school income is very closely allied with tax collections whether they are made by the state or a local unit of government. The smooth functioning of the tax collection agency tends to stabilize the sources of revenue as well as the methods of its distribution. However, a variety of factors may operate to disturb the normal functioning of tax collections. These factors include:

1. The trend of the economic cycle.

2. The efficiency with which the tax collection agencies do their work.

3. The activity of organizations which grow up to encourage non-payment of taxes.

4. The general attitude of the citizens and taxpayers toward supporting public schools and other governmental units.

Either of the above factors might increase the amount of short-term borrowing necessary for governmental units to carry on their proper functions. Short-term loans should not, however, greatly affect the credit of the school district. Long-term loans pyramid the debt of a district and the turnover of the borrowed

money is much slower. Studensky believes that shortening the term of the loans has distinct advantages in municipal financing.

> On short-term loans, borrowed money has a rapid turnover. Each loan and series of debt charges affect the borrowing and taxing powers for only a short time and, when amortized, make room for the incurrence of other loans and the payment of other series of debt charges. More money can be borrowed and more work can be accomplished with short-term loans than under a policy of borrowing for long terms. Future improvements are not blocked to the same extent. The total interest charges are less because the term of the loan is shorter. Each investment is cleared of debt at a much earlier date. Each generation more nearly takes care of its own work. There is less danger of bankruptcy or default.[1]

After the depression years of the early 1930's, considerable legislation was enacted to stabilize the sources of school income. This legislation tended to shift the responsibility of the tax burden away from the general property tax. This trend is described in the following statement from a recent bulletin of the National Education Association.

> Most of the changes in state property tax laws, which took place during the years 1934 thru 1938, were aimed at the relief of the taxpayer. The collapse of property values under the weight of the depression made property tax collections difficult and resulted in a large volume of tax delinquency. Property taxes contributed less than 7 per cent of the total state tax revenues in 1938, as compared with around 20 per cent in 1929, but in spite of the decline in collections, they were still the main fiscal reliance of local governments.[2]

Seligman believes that the general property tax system in most states is economically outmoded and advocates as the first step in tax reform "to relieve the burden of the general property tax, or what has practically become a real estate tax, by

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[1]Paul Studensky, Public Borrowing, p. 92. New York: National Municipal League, 1930.

[2]"Tax Legislation Affecting State School Revenues, 1934-1938," National Educational Association Research Bulletin, Vol. XVII, No. 3 (May, 1939), Washington: National Education Association of the United States.

introducing supplementary forms of taxation."[1] Among the supplementary forms of taxation that he considers the most fair are the inheritance tax, the transaction tax, and the income tax. Tax systems that were set up generations ago when state constitutions were written may have been satisfactory devices for the support of the various governmental agencies at that time. However, many of these constitutional provisions are now outmoded and need to be readjusted to fit a more modern conception of governmental administration. Where the burden of taxation on real estate has been lightened, a greater part of the educational expenditure is met by the state.

Changing Policies with Respect to State Aid for Schools

In addition to making reductions in the property taxes, the states are recognizing their responsibility for giving a greater degree of support to public education. States that have made the greatest progress in state aid hold to the belief of taxing wealth where it is and distributing the funds where they are needed. Gross inequalities in the amount of assessed valuation available for school support are evident in the various school districts of a state. This makes it difficult for many of them to support an acceptable type of a school. Likewise communities differ considerably in what they conceive as being a school of the proper standard. Some districts are willing to make any sacrifice necessary to provide educational facilities of a high order while others look upon any kind of a school as a burden on the community. "When districts are unable to support schools, or if able, are not willing to support schools of a quality corresponding to their

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[1]E. R. A. Seligman, Public Education and a Reformed Tax System, p. 11. DeKalb, Illinois: Industrial Arts Printshop, 1933.

wealth, the question arises whether the state government representing all the people cannot and should not do something to improve the conditions in such districts."[1] State aid is the administrative device through which this equalization has been sought. McGuire holds that equalization is justifiable on the basis of the individual welfare of the child.

> The use of the wealth of one district to aid in educating the children of another (and equalization requires just that) can be justified only on one or both of two theories; first, that the child, in his own right, is entitled to an educational opportunity as good as that of any other child, regardless of the place or circumstances of his birth; second, that the children of the state should be afforded such educational opportunity as will fit them for citizenship within the state.[2]

State aid contributions are sometimes given to stimulate local support. In this way not only are the more advanced districts encouraged, but districts below standard are encouraged to meet regulations that are set up so that they can receive the added revenue resulting from such improvement. Updegraff gives the following summary of the objectives to be attained by state aid.

> State aid should be administered in such a way as to make good schools possible in all communities of the state, so that no community may have a reasonable excuse for a poor school. It ought also to stimulate every school district in the state to have better schools, thereby constantly raising the standard of education and promoting the continual progress of the life of all the people in the state. It also ought to reward any school that takes a new step in an efficient manner because of the meritorious action that such a step indicates. It should do all these things, not only to protect the state from ignorance in the exercise of the ballot and to provide leaders, but also to promote in every possible way the individual welfare of every person in it. In applying this principle to schools, it means that all forms of aid should be utilized so as to guarantee for each

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[1]Harlan Updegraff, Rural School Survey of New York State, Financial Support, p. 113. Philadelphia: Wm. F. Fell Co., Printers, 1922.

[2]Samuel H. McGuire, Trends in Principles and Practices of Equalization of Educational Opportunity, pp. 14-15. Nashville: Cullom & Ghertner Co., 1934.

> child that education which is best to fit him for life, irrespective of the particular community in which he may happen to live. It is upon such grounds as these that the state is justified in taking, through taxation, a citizen's money and expending it in places other than those in which he resides. It is done because the state as a whole and in most cases each citizen will benefit from it in far greater proportion than the cost.[1]

Funds secured to operate a school by means of short-term borrowing must be repaid, but money received from state aid supplements the local revenue and is an outright contribution to the school district. It has been observed that as the amount of money received from state aid has increased, the receipts from short-term loans have decreased.[2] After a program of state aid has been established, it has usually become a permanent and stable source of income. Therefore, a school system that receives a substantial portion of its revenue from state aid and has made the proper budgetary adjustments in the receipts and disbursements of its revenue should have little need for short-term borrowing. State aid not only equalizes educational opportunity but it decreases the wastes prevalent for interest and financing costs on short-term loans. The schools of Florida and North Carolina have practically eliminated short-term borrowing since they have been receiving substantial contributions from state aid.

Changes in Economic Conditions

Periods of economic depression tend to increase the amount of temporary borrowing done by the public schools. During such periods when tax collections are slow or valuations are reduced, the schools sometimes rely either on surpluses or reduce their operating costs. Since the accumulation of large surpluses for emergency purposes is not generally sanctioned, school budgets are

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[1] Updegraff, op. cit., pp. 115-116.

[2] See figs. 1, 2, 3, and 4 in chap. v.

often reduced so that the educational program is curtailed. School boards borrow money or issue time warrants in order to continue their operations. The taxes or other anticipated funds are pledged as security for the payment of the money borrowed. It has been observed that the highest points in such short-term borrowings have been reached during periods of economic depression.

The amount of short-term borrowing done by the public schools may bear a close relationship to the changes in the economic conditions of the country as a whole. The data on the amount of short-term borrowing done in some states indicate that there is a greater amount of borrowing necessary during depression years. The increased use of short-term loans when the economic cycle is at a low point may be a result of

1. Lowering assessed valuations.
2. Delinquent tax payments.
3. Reduced state aid.
4. Increased requirements in services offered by the school.

During periods of depression there is a general reduction in the value of property. School systems that normally go along in a satisfactory manner often find themselves in a serious financial condition due to drastic drops in their assessed valuations. In order to tide over such periods it is necessary to make adjustments in the school budget so that there will be sufficient income to meet the current costs of operation.

Whatever policy a school district follows in getting through a depression period must of necessity be closely related to its financial needs. If short-term borrowing is the means of weathering such periods, there must be sufficient current revenue pledged to assure the security of the loans. It is the usual

policy for school districts to cut their operating costs to the extent that they can be met by the current revenues in order to tide over the periods when the economic cycle is at its lowest.

Another factor which always accompanies depression periods is an increase in tax delinquency. Property owners are unable to meet their tax bills when due, and if the real and personal taxes remain unpaid, funds are not available for the school districts to meet their current expenses. School districts may resort to borrowing against the anticipated funds to be received from the delinquent taxes. Since 100 per cent collection of taxes is rarely achieved, the state legislatures have placed certain restraints upon the school districts by limiting the percentage of the delinquent taxes that may be borrowed. However, when the economic cycle improves the delinquent taxes are paid. Schools are then back to normal in their financial receipts. Often large sums are spent for interest and other costs on short-term loans which would normally have gone into some type of educational program.

Changing economic conditions may also increase the services required of the schools. During depression periods it is difficult for youth and adults to find employment. Consequently more high school pupils remain in school to complete their courses. This often requires additional expenditures for instructional services, buildings, and maintenance by the school district. In addition to the increased high school enrollment, school districts may offer educational services to the adults of the community greatly in excess of the normal program provided by the school budget.

Emergencies

Short-term borrowing may sometimes be necessary in order to provide revenue for enabling school districts to meet emergency conditions. Bank failures may tie up the funds of the district

or cause a loss in the available money for meeting school expenses. The loss of a building by fire or windstorm creates an immediate emergency in the school district, which may make it necessary to rent temporary quarters suitable for carrying on school facilities. Any "emergency governmental expenditures necessitated by extensive natural disasters are always properly financed by borrowing."[1] Sometimes legislation is passed which may require additional services from the schools in the way of subject offerings, teaching staff, or equipment. Current revenues are not always immediately available to meet such an emergency and borrowing must be used as a means of supplying the necessary funds until the proper adjustment can be made in the school finances.

Amount of Short-Term Loans Reported and Interest Cost

Table 46 summarizes the average annual receipts from short-term loans by the schools in twenty states over varying periods of time for which complete data is available. For the period of years indicated, an average of 7.91 per cent of the total receipts have been from funds made available by means of short-term loans. From the data presented in Table 46 it is observed that the schools in the State of Illinois have received a greater percentage of their income by borrowing against future tax revenue than any other state reporting. During the seventeen year period reported, the schools of Illinois received 26.58 per cent of their total income from short-term loans. This means that the school districts of the state have been paying interest on more than one-fourth of the cost of operating their schools. The schools of Louisiana have also relied heavily upon short-term borrowing and an average of 24.31 per cent of their total receipts was made available by this

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[1]William J. Shultz, op. cit., p. 171.

means during the nineteen year period reported for the state. It is observed that the range in the twenty states reporting is from .44 per cent in Maryland to 26.58 per cent in Illinois.

TABLE 46

SUMMARY OF AVERAGE ANNUAL RECEIPTS FROM SHORT-TERM LOANS IN TWENTY STATES

State	Number of Years Reported	Annual Per Cent of Total Receipts from Short-Term Loans
Illinois	17	26.58
Louisiana	19	24.31
North Carolina	23	12.39
Florida	22	12.35
Georgia	11	10.00
Kentucky	4	9.60
Michigan	14	8.50
Wisconsin	26	7.95
Texas	11	7.78
Pennsylvania	8	6.45
Arkansas	6	6.10
Tennessee	10	5.37
Virginia	18	5.02
Ohio	8	4.25
New Jersey	24	2.76
Utah	12	2.56
Indiana	11	2.36
Connecticut	14	2.26
South Carolina	7	1.26
Maryland	19	0.44
Mean	....	7.91

A summary of the interest costs paid in short-term financing is presented in Table 47. The data cover all the years for which the information is available and range from ten years in Tennessee to forty-three years in Washington. The range in the percentage of the interest costs to the total expenditures is from .28 per cent in Utah to 2.12 per cent in Washington. During the entire number of years reported, these states spent an average of 1.06 per cent of their total expenditures for the interest costs on their short-term loans.

TABLE 47

SUMMARY OF THE ANNUAL INTEREST COST OF SHORT-TERM FINANCING IN TEN STATES DURING ALL THE YEARS FOR WHICH COMPLETE DATA ARE AVAILABLE

State	Number of Years for Which Data Are Available	Amounts Spent for Interest on Short-Term Loans		
		Total Interest Paid during Period	Average Annual Interest Cost	Per Cent of Annual Total Expenditure
Utah	12	$376,481	$31,373	0.28
Pennsylvania .	16	9,034,468	564,654	0.32
Arizona. . . .	12	363,540	30,295	0.35
North Carolina	22	4,226,340	192,106	0.60
Louisiana. . .	17	4,408,383	259,317	0.91
South Dakota .	34	4,324,666	127,196	1.13
Wisconsin. . .	22	6,214,311	282,469	1.42
Idaho.	16	2,694,981	168,374	1.68
Tennessee. . .	10	4,664,182	466,418	1.80
Washington . .	43	9,190,044	213,722	2.12
Mean. . . .	....	.....	.....	1.06
Range . . .	....	.....	.....	0.28-2.12

Useful Purposes Served by Short-Term Borrowing in School Finance

Inasmuch as the legislatures of forty-four of the forty-eight states have made some provisions for giving the school boards authority to finance schools on a short-term basis, they must have considered the procedure one of the essentials needed in conducting school business.

Even though the provisions of no two states are exactly alike, the statutes generally serve the same specific purpose in that they provide a means of financing the schools when there is no cash on hand. That there should be a great variation in the use made of the provisions is to be expected when we consider the variety of patterns in school administration, organization, and finance that are in use by the different states.

It may be said that short-term borrowing has served a

useful purpose in the public schools under the following conditions:

1. As a device for securing immediate funds for financing the schools before the regular current tax revenue is available. This is especially desirable when the budget or fiscal year and tax collection year do not coincide.

2. When used to provide a source of immediate revenue for current purposes by borrowing against anticipated funds from state aid.

3. When used to provide a means of securing money for current purposes when tax collections are slow or are held up by "tax protests," reassessments, or court proceedings.

4. When used to provide a means of raising money for immediate emergencies such as bank failures, fires, explosions, or other unforeseen emergencies.

5. When used for securing additional money to finance an increase in enrollment or meet some academic requirements suddenly needed within the schools.

6. When used to aid in financing the schools during "economic depressions."